Executive Agenda

Contact: Steve Culliford, Democratic Services Officer
Telephone number 01235 540307
Email: steve.culliford@whitehorsedc.gov.uk
Date: 3 February 2011
Website: www.whitehorsedc.gov.uk

Vale of White Horse District Council

A meeting of the

Executive

will be held on Friday 11 February 2011 at 3pm in the Guildhall, Abingdon

Members of the Executive:

Councillors

Tony de Vere (Chair)
Richard Webber (Vice-Chair)
Mary de Vere
Richard Gibson
Jenny Hannaby
Angela Lawrence
Jerry Patterson

A large print version of this agenda is available. In addition any background papers referred to may be inspected by prior arrangement.

Please note that this meeting will be held in a wheelchair accessible venue. If you would like to attend and have any special access requirements, please let the Democratic Services Officers know beforehand and they will do their very best to meet your requirements.

Margaret Reed
Head of Legal and Democratic Services

Members are reminded of the provisions contained in the code of conduct adopted on 30 September 2007 and standing order 34 regarding the declaration of personal and prejudicial interests.

Agenda

Open to the Public including the Press

Map and vision
(Page 4)

A map showing the location of the venue for this meeting is attached. A link to information about nearby car parking is http://www.whitehorsedc.gov.uk/transport/car_parking/default.asp

The council's vision is to build and safeguard a fair, open and compassionate community.

1. Apologies for absence

To receive apologies for absence.

2. Minutes

To adopt and sign as a correct record the public minutes of the Executive meetings held on 7 and 31 January 2011 (previously published).

3. Declarations of interest

To receive any declarations of personal or personal and prejudicial interests in respect of items on the agenda for this meeting.

4. Urgent business and chair's announcements

To receive notification of any matters which the chair determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chair.

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

Any statements, petitions, and questions from the public under standing order 32 will be made or presented at the meeting.

6. Draft budget 2011/12

To consider the draft budget proposals and make a recommendation to the Council. **PAPERS TO FOLLOW**

7. Joint Environmental Trusts
(Pages 5 - 10)

To consider report 99/10 of the head of planning.

8. Budget monitoring - quarter 3 2010/11

(Pages 11 - 18)

To consider report 103/10 of the head of finance.

9. Treasury management mid-year monitoring report 2010/11

(Pages 19 - 25)

To consider report 100/10 of the head of finance.

10. Treasury and investment strategy 2011/12 to 2013/14

(Pages 26 - 42)

To consider report 101/10 of the head of finance.

11. Ongoing provision of concessionary fares services

(Pages 43 - 50)

To consider report 102/10 of the head of finance.

12. Exclusion of the public, including the press

The Chair to move 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) and Part 1 of Schedule 12A, as amended, to the Act when the following items are considered:

Minutes
(Category 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information.)

Exempt information under section 100A(4) of the Local Government Act 1972

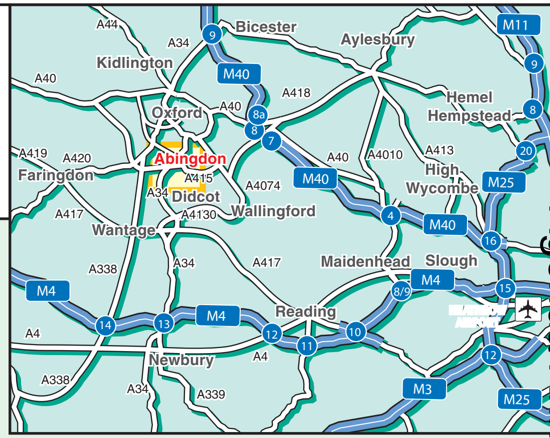
13. Minutes

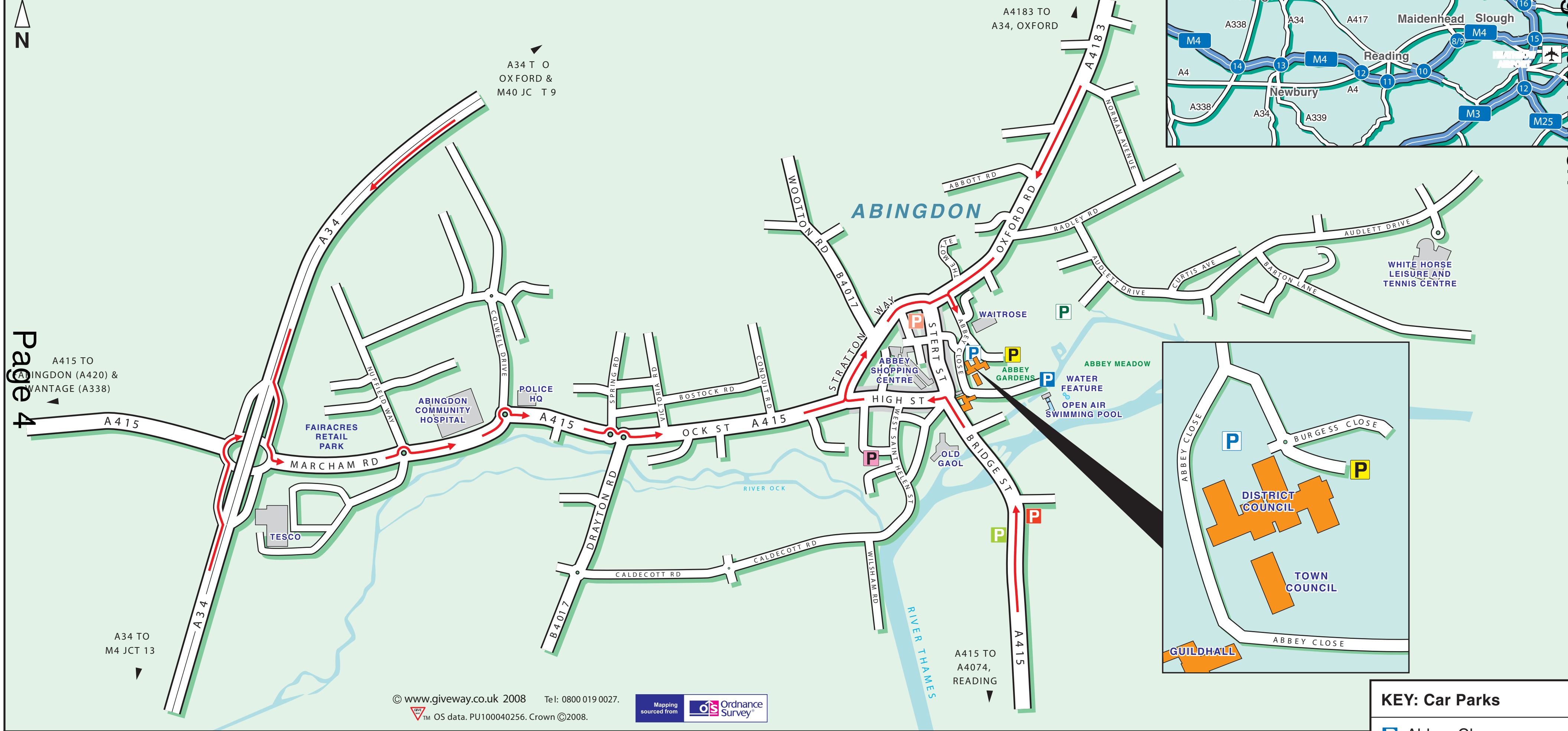
To adopt and sign as a correct record the exempt minutes of the Executive meetings held on 7 and 31 January 2011, (previously published).

Vale of White Horse District Council

Vale of White Horse District Council
Abbey House, Abbey Close, Abingdon, OX14 3JE

Tel: 01235 520202 Fax: 01235 532217
www.whitehorsedc.gov.uk





KEY: Car Parks

- P Abbey Close
- P Cattle Market
- P Charter Multi-storey
- P Civic
- P Rye Farm
- P Hales Meadow
- P Audlett Drive
- P West St Helen Street

By rail – the nearest main line railway stations to Abingdon are either Didcot Parkway (seven miles) or Oxford (eight miles). Radley railway station is located on the main line between Oxford and Didcot and is three miles from Abingdon town centre. For details of train times visit www.nationalrail.co.uk or call 08457 484950

By bus – there are a number of bus routes serving Abingdon town centre. For details of services and timetables, visit Oxfordshire County Council's website at www.oxfordshire.gov.uk. Contact details for bus operators can be found on the travel information pages on our website www.whitehorsedc.gov.uk

Parking – details of car parks charges can be found on our website

Executive

11 February 2011

Report of Head of Planning **Report No. 99/10**

Author: Adrian Duffield

Telephone: 01235 540340

Textphone: 18001 01235 547633

E-mail: adrian.duffield@southandvale.gov.uk

Wards affected: Abingdon, Faringdon, Grove and Wantage

To: EXECUTIVE

DATE: 11 February 2011

Executive member responsible: Councillor Mary de Vere

Tel: 01235 203169

E-mail: mary.dever@ntlworld.com.uk

Joint Environmental Trusts - Future Working Arrangements

Recommendation of Executive to Council

1. Agree to wind up the council's joint committees (Joint Environmental Trusts (JET)) for Abingdon, Faringdon, Grove and Wantage.

Recommendation to Executive

2. That the JET bank accounts are closed and any outstanding uncommitted JET funds due to be returned to the council are offered as a grant to the relevant Abingdon, Faringdon and Wantage town council and Grove parish council for environmental improvements in accordance with the partnership grant terms and conditions and any town/parish council funds are transferred to the respective council.

Purpose of Report

1. Following consultation with the relevant town and parish councils on the future working arrangements of the Joint Environmental Trusts (JETs), this report considers the responses made and suggests a way forward to administer partnership grants for environmental improvements in Abingdon, Faringdon, Grove and Wantage.

Strategic Objectives

2. The work involved with the JETs meets our objectives to work in partnership to sustain vibrant market towns whilst ensuring we provide value for money services that meet the needs of our residents and service users.

Background

3. Following the 2009/10 budget process, the funds for the four JETs was reduced and all officer technical advice and project management on environmental, landscape and conservation matters were withdrawn because of staff reductions. Although projects nearing completion were seen through by officers, no further projects were taken on board by the district council. It is important to recognise that in recent years staff time spent on these projects has been significant and had greatly outweighed, in cost terms, the grants provided. In addition, although the council provide admin and financial support, this is only likely to continue until the end of March 2011.

4. These changes meant there was a need to review the working arrangements of the JETs. The executive member for planning and the leader/deputy leader, supported by senior officers met with representatives of Abingdon, Faringdon and Wantage town councils and Grove parish council to consider the future of the JETs. This approach reflects joint working and mutual agreement as set out in the Constitutions for each of the JETs. The meetings occurred during April/May 2010.

5. Following these meetings the executive member for planning agreed that the council should formally consult with the relevant town and parish councils on the options for future working arrangements. A consultation letter was sent out in July and sought comments by 1 September, although two councils asked for an extension of time in order to respond.

Consultation

6. The council formally consulted on the following three options and invited alternative options:

   (i) The town/ parish council runs the JETs, e.g. taking on the administration and responsibility for running the JETs as a sub-committee of its council and managing contracts for works. This would include employing professional bodies to provide technical advice, prepare and implement environmental projects. The district council would provide grant funding via its partnership grant scheme, which means grant is allocated on a project specific basis. Membership of the JET would be a matter for the town/ parish council, but there is an expectation that while the district council provide funding district councillors as well as other relevant bodies would be co-opted on to the JET.

   (ii) The district council provides funding to town/parish councils in accordance with the council's partnership grants scheme and associated monitoring arrangements, and both parties agree that the JETs are wound up. The town/ parish council administers the grant without involvement from other parties other than as it wishes.

(iii) The district council awards a set grant to each of the three towns and one parish council, which is funded out the council's partnership grants scheme. The town/parish councils match fund the grant offer. A task group is set up, known as JET, comprised of town/ parish and district councillors to agree JET grants and oversee delivery of the projects. The town/ parish council holds the responsibility for administration of the JET task group, financial management of the JET grant and contract management. A protocol would be required for the operation of the JET task group and the award of grants.

Consultation responses

7. The outcome of the town/parish consultation is summarised in the table below:

Town/Parish Council	Option selected	Comments
Abingdon	(i) Wind up JET and the town/ parish council run a new form of JET	
Faringdon	(ii) Wind up JET and community groups bid for grants	Final meeting 16 Sept – wants clarity on uncommitted funds and outstanding projects
Grove	(iii) Wind up JET and the town/ parish council run a task group with matched funding from the councils	Seeking a set grant awarded to the parish council, want to know the outcome as soon as possible in order to set the budget for 2011/12
Wantage	(i) Wind up JET and the town/ parish council to run new form of JET	Reluctantly favours option 1. Request that JETs are reintroduced in the future. Concern about the uncertainty of securing grant through the community grants scheme. Want advice about setting up independent trust.

8. There were no alternative suggestions made by the town/parish councils.

9. In addition to the responses received, the chairman of the Letcombe Brook Project requested to meet the council. The executive member for planning and the leader met with a representative of the Letcombe Brook Project, the project officer and a senior officer. Notwithstanding the funding of the project the key issue for discussion was whether there was justification for changing the client role of the district council and the reporting lines of the project officer. The role of this officer is to maintain, improve and enhance the brook and local environment in terms of nature conservation and public access. It is recognised that over the last six years of the project, an additional £140,869.08 has been raised for capital works and environmental improvements, including flood alleviation. The project officer is employed by the district council on an annual contract and is line managed by the shared planning policy manager. The post is funded by annual contributions from the Wantage and Grove trusts (£6,124 each), Environment Agency (£8,500) and

Letcombe Parish Council (£600). It is considered that the client role provided by the district council functions effectively and absorbs minimal officer time (limited officer time/cost – 6/10hrs per year). It is suggested that this arrangement continue for 2011/12.

Suggested future working of JETs

10. In considering the outcome of the consultation three out of the four town/parish councils supported the options to wind up the existing Joint Environmental Trust and set up a new environmental improvement group or committee run by the town/parish councils. One of the parish/town councils expressed a concerned about securing funding through the district council's partnership grants scheme (bidding on an individual project basis) and sought confirmation of an annual grant from the district council.

11. It is therefore suggested that the new working arrangements for the JETs is a combination of option (i) and (iii). This would mean the current Joint Environmental Trusts are wound up. That the town/parish council could set up its own mechanism (sub-committee or group) to administer, consider and manage (e.g. contracts) environmental improvement schemes in its town/village. Subject to the council's budget, the town/parish council can seek a partnership grant for environmental improvements. This approach is consistent with the council's system for administering grants and with the resources available, is the most efficient and effective way to operate. A partnership grant service level agreement would be used to confirm the arrangement for each town/parish council. There would be no required match funding; it would be up to the town/parish council to determine if and how much it contributed to environmental improvement schemes. Membership of the town/parish council mechanism to administer environmental improvement schemes would be up to the town/parish council.

12. The relevant town/parish council can choose whether they wish to take up this option.

13. Subject to funding being made available by the relevant parties, the district council would continue next year 2011/12 to contract and manage the Letcombe Brook Project Officer who would continue to report to the steering group consisting of a councillor from Grove and Wantage parish/town councils and from the district council.

Financial Implications

14. Grant funding to the JETs was provided on a mutually agreed basis, as set out in the relevant constitution. However, because of the increasing budget constraints facing the district council the grant allocation in 2010/11 was only 50% of that offered in 2009/10. Faringdon Town Council decided not to pay its contribution for 2010/11 (£2,000) because of the uncertainty about the future of the JET so the district council contribution has also not been paid. The district council's provisional budget allocates a similar grant to the four town/parish councils for next year, 2011/12. However, this cannot be confirmed until the council's financial position is finalised in February. There can be no guarantees in respect of future annual grant for projects as requested by the town/parish councils. The partnership grants cost centre would hold any available grant for the town/parish council until requested.

15. Any outstanding grant offers made by the existing JETs which have not yet been claimed but are included in the JET's budgets as commitments need to be paid when the work has been satisfactorily completed. This will require a small amount of planning staff time in the short term to monitor and approve the works.

The likely financial position of the JETs at March 2011 is as follows:

	Funds held now	Expected to spend	Still committed at that date	Unspent/ uncommitted at March 2011
Abingdon JET	£74,168	£6,438	£38,400	£29,330
Faringdon JET	£18,554	£9,500	£0	£9,054
Grove JET	£12,470	£147	£7,624	£4,699
Wantage JET	£14,326	£5,540	£8,124	£662
Total	£119,518	£21,625	£54,148	£43,745

16. On the basis that the JETs are to be wound up, in accordance with the existing JET constitutions, any unspent funds should be returned to the respective councils in direct proportion to the contribution made. Similarly any private donations, uncommitted, shall be returned. Councillors may wish that the district councils returned contribution is offered to the relevant town/parish council as a partnership grant. In this instance the expenditure must be accounted for and spent on environmental improvements and its associated costs. It is suggested that this would be appropriate and supports the council's corporate objective for partnership working and to sustain vibrant market towns through environmental improvements.

Outstanding projects to be reviewed

17. A number of projects will need to be referred back to the town/parish councils for a review on how they can be progressed. There is no staff capacity at the district council to undertake this work. These projects include;

Abingdon; improvements to the junction of Stratton Way and Park Road, blue plaque to commemorate Arthur Preston, tree planting around the town and realignment of finger posts.

Faringdon; restoration of tombstones and memorials in All Saints Churchyard

Grove; village entrance feature, tree planting around the village

Wantage; improvements to Alfreds Bath, Locks Lane – to be taken on by the Letcombe Brook Project Officer.

18. It is suggested that the Grove and Wantage town/parish council review the agreed project work and future work for the Letcombe Brook Project Officer. They have agreed to fund the post in 2011/12. This commitment is included in the above table (para 15).

Legal Implications

19. Legally, the JETS are formal joint committees under s102 of the Local Government Act 1972. Should the council decide to cease these formal joint committees, a formal resolution will be necessary. Thus this matter will need to be referred to Council.

Risk

20. Environmental projects carried out by district council officers on behalf of the JETs ceased from April 2010. Specialist expertise can be bought by the Trusts, to assist development of projects and implement schemes. However, this is likely to be more expensive than the previous arrangement. This will mean that the ability of the Trusts to carry out environmental improvements will be reduced. If specialist advice is not available to the Trusts the quality of projects could suffer or liabilities (defects) could result.

Conclusion

21. Following the reduction in staff the council has not been able to provide specialist support to the JETs during 2010/11. As part of delivering savings for 2011/12, the administrative and financial management support will cease at the end of March 2011. Town/parish council have been consulted on alternative working arrangements to the JETs and a way forward can be secured, by the town/parish councils administering and running environmental improvement schemes. Subject to funding, the district council can offer partnership grants to the four town/parish councils, to assist in delivering environmental improvements within the town/parish.

Background papers

None

Executive

Vale of White Horse District Council

11 February 2011

Report of Head of Finance

Author: Bob Watson, Chief Accountant

Telephone: 0044 1235 540426

Textphone:

E-mail: bob.watson@southandvale.gov.uk

Report No. 103/10

Wards affected: All

Executive member responsible: Richard Webber

Tel: 01235 534001

E-mail: richard.webber@whitehorsedc.gov.uk

To: EXECUTIVE

DATE: 11 February 2011

Budget Monitoring – Quarter 3

Recommendation

To note the current position and forecast of outturn by the services.

Purpose of Report

1. The report details the current revenue and capital expenditure position for the first three quarters of financial year (fy) 2010/11. The report is submitted to the Executive to assist it in fulfilling its service delivery and budget management roles.

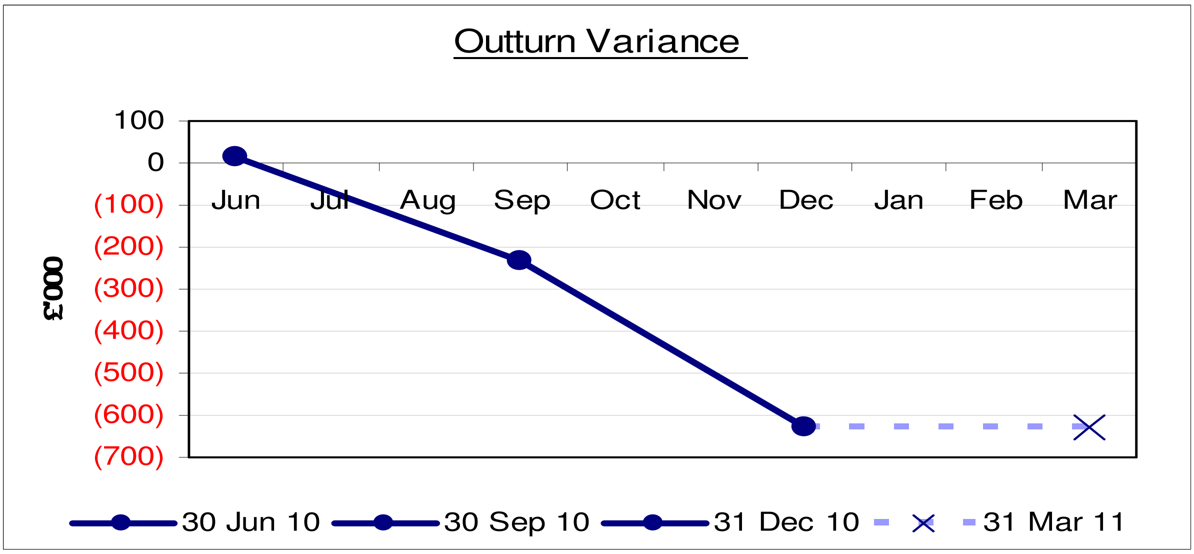
Strategic Objectives

2. The Council has a strategic objective to manage the business effectively, provide value for money services that meet the needs of our residents and service users and communicate the Council's activities and achievements. This report seeks to inform the committee of the current position of the council with regard to budget, expenditure to date, committed expenditure and the forecasted year-end outturn. The report also highlights where there are budget pressures and potential under-spends, with the reasons for these.

3. Both the revenue and capital positions to date and the forecasted outturn position are covered in this report. Budget is as set by council and includes approved virements to date; actual income and expenditure figures are derived from the Council's general ledger system and the predicted outturn with explanation of variances are provided by the budget holders within the service areas.

Revenue Budget Monitoring Report

4. Budget monitoring for the first three quarters of 2010/11 (1 Apr – 31 Dec 10) indicates that, at the date of this report, the Council is predicting an underspend by year end of £666,080 (Qtr 2 was predicting an underspend on the budgets of £234,164).

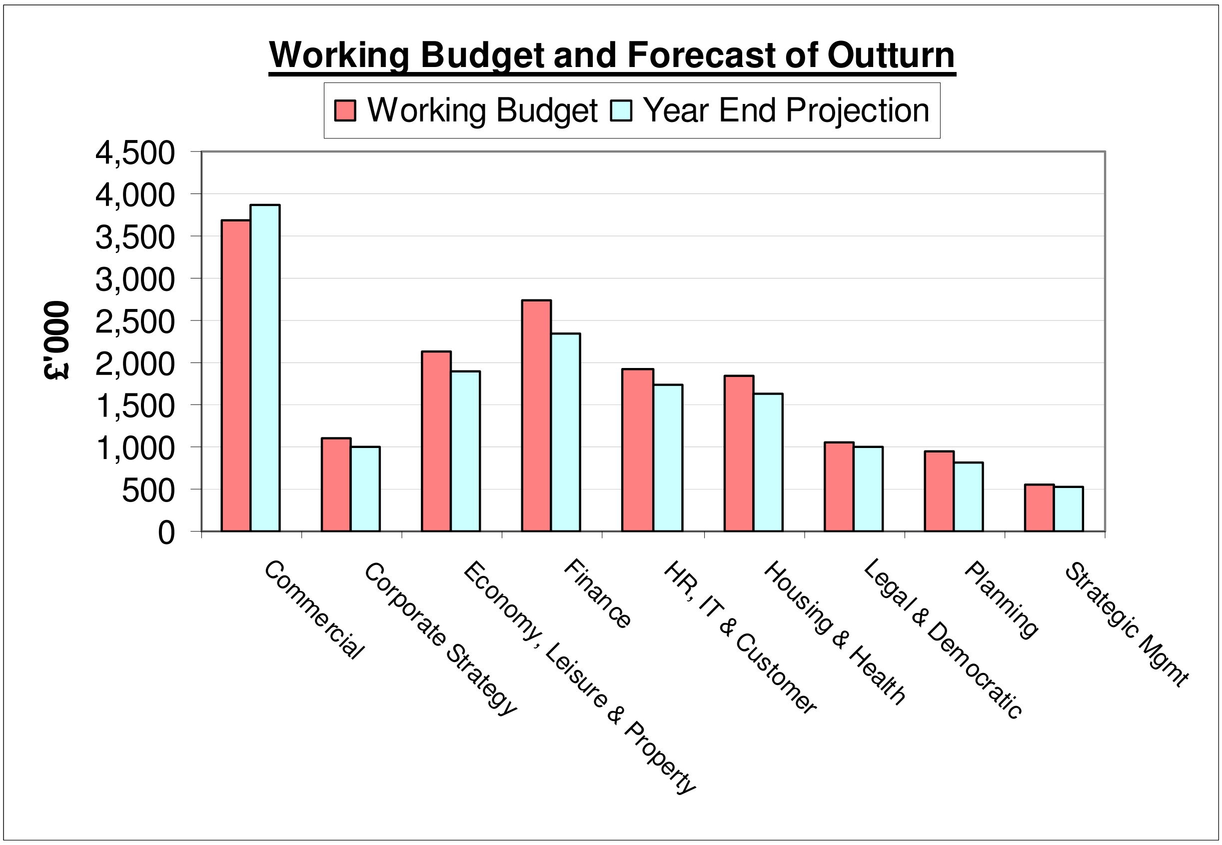


5. Service areas are reporting a net predicted outturn of £1,144,290 under budget but this is reduced by a predicted "below the line" pressure of £514,530 due to lower than budgeted income from investments and the withdrawal by central government of the Housing and Planning Deliver Grant (HPDG) and Local Area Business Growth Incentive (LABGI). The underspend is then further reduced by the unbudgeted net effect of the below fourth tier staff savings initiative by £213,680. This is however offset by the contingency budget which, on current estimates, will have £250,000 unapplied by year end.

Table 1 – Outturn forecast by Service Area as at 30 Sep 10

(all figures in £'000)

	Working Budget	Actuals & Commitments (31 Dec 10)	Year End Projection	Year End Variance
Commercial	3,686	1,578	3,879	194
Corporate Strategy	1,103	823	1,002	(101)
Economy, Leisure & Property	2,121	1,668	1,894	(228)
Finance	2,738	5,364	2,341	(397)
HR, IT & Customer	1,925	1,376	1,730	(196)
Housing & Health	1,848	1,177	1,626	(221)
Legal & Democratic	1,047	694	998	(49)
Planning	952	735	826	(125)
Strategic Mgmt	554	427	532	(22)
	15,973	13,842	14,828	(1,144)
Below the Line	(2,381)	(1,384)	(1,867)	515
	13,592	12,457	12,961	(630)
Net below 4th tier costs				214
Contingency				(250)
				(666)



6. The main variances within the individual service areas are highlighted in the table below, which shows the variance against the gross expenditure and income budget lines within the services. Significant elements of the savings are a direct result of cost reduction measures being implemented.

Table 2 – Detail by Service Area of main variances

	£000
Commercial services	
Expenditure	
Salary and running expense savings. Building control budget savings £91k - redundancy budget not required.	(155)
Income	
Shortfall on income - car parking, waste recycling credit, garden waste, bulky waste. Building control surplus to balance sheet increased (recorded in income range).	349
	194
Corporate strategy	
Expenditure	
Underspend on advertising, printing and CCTV operator pension costs. Also, there a decision has been made not to fund any adaptation projects carried out by teams which has resulted in an underspend. The variance excludes unbudgeted redundancy costs of £54k and below 4th tier savings of £38k.	(104)
Income	
Mainly one off income from Sovereign Vale Housing Association	3
	(101)
Economy, Leisure and Property	
Expenditure	
Mainly due to salary savings in Business Support Unit, Direct Services, Facilities, Estates Management, Civic Hall and Guildhall following redundancies plus other resulting cost reductions. However the variance excludes unfunded redundancy costs of £125k and below 4th tier savings of £25k.	(277)

Income Reduced income from room hire at Guildhall and Civic Hall (£22k) and reduced bar income (£19k) although partly offset by lower costs), reduced contributions of £15k for Sports Development (but again offset by reduction in expenditure). Higher income from recharges for Business Support Unit (£15k).	(49)
	(228)
Finance	
Expenditure Mainly due to increased expenditure on Housing and Council tax benefits (now est at £449k, although effects are mitigated by increased subsidy receivable). An overspend of around £18k is projected on the provision of the Payroll function, due to work on the Payroll Action Plan. Underspends are expected in respect of Assisted Travel costs (£99k), and salaries due to maternity and part-year vacancies (£54k). Other main underspends include lower than budgeted expenditure on discretionary rate relief (£17k) and variance on past service pension costs.	220
Income Mainly due to increased subsidy in support of Housing and Council Tax Benefits	(617)
	(397)
HT, IT & Customer	
Expenditure Mainly the result of savings arising from the early closure of Wantage LSP and staffing changes arising through restructuring.	(196)
Income -	-
	(196)
Housing & Health	
Expenditure Lower than anticipated cost of benefits payable to temporary accommodation clients and expenditure on costs of nightly paid accommodation, in addition to a number of smaller other variances.	(449)
Income Lower than anticipated levels of temporary accommodation subsidy receivable and reduction in rental income due to reduced number of TA cases.	228
	(221)
Legal & Democratic	
Expenditure Mainly due to a reduction in direct salary costs from in-year vacancies.	(23)
Income Bulk of variance relates to projected outturn for election costs reimbursed by local and central government.	(26)
	(49)
Planning	
Expenditure Mainly due to salary savings (£146k) and other minor savings (£22k) but consultants fees overspent by £15k.	(153)
Income Reduction in planning fees received	28
	(125)
Strategic management	
Expenditure CAA work has been put on hold resulting in reduced audit fees	(22)
Income -	0
	(22)
Contingency	
-	**(250)**

Below the line	
Investment income interest – shortfall due to continuing lower rates than expected	270
Property Trading Income – unrecoverable rates	55
Housing and Planning Delivery Grant – cancelled by central government	150
Local Area Business Growth Incentive (LABGI) – cancelled by central government	40
	515
Net effect of unbudgeted below fourth tier restructure (severance costs)	**214**
Current underspend against budget predicted in year	**(666)**

Capital Budget Monitoring Report

7. Capital budget monitoring for the first three quarters of 2010/11 (1 Apr – 31 Dec 10) indicates that of the capital programme expenditure budget of £5.99 million (includes carry forwards); to date £3.53 million (Sep 10 was £2.87 million) has been spent (58.9%). Budget holders have indicated expected expenditure at year end of £4.50 million and consequently identified £1.49 million of budget that will need to be carried forward to 2011/12. This is funded by £0.85 million of external grants and contributions with the balance of £3.65 million funded from the council's capital reserves. The detailed capital programme as at 31 Dec 10 is attached at Appendix 1.

8. There is a predicted pressure on the capital budget for the purchase of wheel bins for the new waste contract – this is nearly £0.35 million over budget and there is likely to be further £230,000 spend for the capitalisation of the delivery costs.

9. The Council remains within the confines of its Prudential Indicators as specified in the 'Yellow Pages' agreed by Council in Feb 10. The Council also remains well within its operational debt boundaries.

Financial Implications

10. Any variance in the outturn position from the budget will have an impact on the council's level of reserves.

Legal Implications

11. This is an information report and there are no legal implications.

Risks

12. Failure to manage budgets on a regular and adequate basis, and take appropriate action where necessary, could lead to a greater call on the council's reserve balances than were originally anticipated in the Medium Term Financial Plan (MTFP).

Other implications

13. Any change in the planned reserve levels in the MTFP could affect future budgets.

Conclusion

14. Current revenue outturn prediction is £666,080 underspend (4.9% of net budget).

Appendix

1. Capital Programme and expenditure as at 31 Dec 10

Background Papers

- Executive Budget Proposal 2010/11 (Yellow Pages) approved by Council on 17 February 2010.

CAPITAL PROGRAMME 2010/11 to 2013/14 expenditure to 31 Dec 10 (Qtr 3)

old cost centre	new cost centre	officer resp.		exp. to 31.3.10	original budget 2010/11	revised 2010-11 inc cfwd	actual at end Dec 10	proposed 2011/12	proposed 2012/13	proposed 2013/14	proposed estimated total cost	F/Y Rev. cost once complete	comments
		key		£	£	£	£	£	£	£	£	£	
			specific projects										
W56	YA02	PD	Sewage works	70,523	30,000	30,000					100,523		
Y22	YA04	KC	Mobile Home Parks - Base replacement	71,955	11,000	12,864	7,658	11,000	11,000	11,000	117,819		
Y23	YA05	KC	M H P - Junct. box replacement	56,405	11,000	27,000	1,639	11,000	11,000	11,000	116,405		
Y25	YA07	IRM	Great Coxwell Church Wall	1,732	19,200	19,200					20,932		
	YA18	WB	Development of additional plots at Mobile Home Park	8,920	800,000	800,000					808,920	(9,000)	Will generate £1.1m capital receipt
	YA19	WB	Replacement hot water boilers in Abbey House	13,851	1,000	1,000					14,851		
	YA20	PD	Revetment works at rivers Ock and Thames	22,058	53,000	53,000	46,481				75,058		
	YA21	WB	Refurbishment of offices Abbey House			15,000					15,000		Agreed by Exec May 28. From YC24
Y38	YC06	AW	Pitches, pathways etc at Mably Way Grove VWH cont.	90,519		12,269	347				102,788	3,500	
	YC15	AB	Public Arts projects funded by contributions	150,667	100,000	100,000	39,051				250,667		all funded from contributions
	YC17	IRM	Water feature in Manor Park, Wantage.	149,923	3,200	122					150,045		
	YC21	CW	Faringdon LC replacement air handling units	67,719		2,281					70,000		Retention to pay
	YC23	DW	Purchase bins for new waste contract		2,146,521	2,146,521	2,499,507				2,146,521	(195,955)	
	YC23	DW	Additional wheeled bins for new properties		24,400	24,400		47,200	47,200	47,200	166,000	varies	Some funded from contributions
	YC24	KA	Maintain building fabric - property facilities		200,000	185,000	139,574	200,000	200,000		585,000	50,000	Loss of income during works £50k plus claims from Leisure contractors
	YD05	LB	Interactive forms on website		30,000	30,000	11,861				30,000	6,000	
	YD06	LB	Replace existing PCs across council		18,750	37,500	12,731				37,500		
	YD08	WB	Business support unit - industrial printer		13,000	13,000					13,000		Not happening?
Y78	YF04	WJ	Capita computer equipment	501,032	78,278	78,278		27,397	2,609		609,316	(104,540)	
W20	YH01	HN	Support development of Social Housing	793,808	206,190	206,190	115,500				1,000,000		
new	YH12	LH	Replacement CCTV cameras in Abingdon & Wantage	74,537	62,780	75,460	2,625				150,000		
	YH14	LS	Enhanced choice-based lettings inc. Oxon wide	10,648		1,480					12,128	11,860	
	YH15	ST	Climate change investment fund	8,829	75,000	141,171		50,000			200,000	(16,175)	
W03	YP01	GAM	ABITS implementation	74,524	160,880	190,880	20,000				265,400		
W04	YP02	MT	Southern Central Oxfordshire Transport Study	13,600	30,000	30,000					43,600		
W55	YP03	SM	Rural Towns Initiatives	123,423	100,000	100,000					223,423		
	YP05	MG	Electronic delivery of planning service	77,582		22,421					100,000		funded from Gov't grant
Y13	YP06	AW	New paths/cycleways	3,029	71,500	76,500					79,529		
	YP11	SM	Cont. to Abingdon Museum access and refurbishment		150,000	150,000		150,000			300,000		probably not in 2010-11
	YP12	RA	Online payment for planning applications		10,000	10,000					10,000		
	YP13	RA	Electronic consultation on planning applications		8,000	8,000					8,000	(1,000)	
			total specific schemes	2,385,284	4,413,699	4,599,537	2,896,974	496,597	271,809	69,200	7,822,425	(255,310)	
			continuous schemes	1 year only									
W17	YA01	PD	Flood Prevention	16,910	313,650	319,140	25,011	45,000	105,000		486,050		Grant funding rec'd from Env. Agency for extra schemes in 10/11 & 11/12
W40	YC03	IRM	New & upgraded parks facilities	77,771	15,000	34,400	1,448	15,000	15,000	15,000	157,171		
W97	YH05	PH	Renovation/Disabled Grants, mandatory	890,009	850,000	850,000	574,460	850,000	850,000	850,000	4,290,009		
W98-Y0	YH06-09	PH	Renovation/Disabled Grants, discretionary	60,737	90,000	188,163	35,291	90,000	90,000	90,000	518,900		
			total continuous schemes	1,045,427	1,268,650	1,391,703	636,210	1,000,000	1,060,000	955,000	5,452,130		
			Proposed schemes										
			Replacement heating boilers in Abbey House					80,000			80,000	(3,600)	
			proposed new schemes from 2010-11					80,000			80,000	(3,600)	
			TOTAL CAPITAL PROGRAMME	3,430,711	5,682,349	5,991,240	3,533,184	1,576,597	1,331,809	1,024,200	13,354,555	(258,910)	

Appendix 1

CAPITAL PROGRAMME 2010/11 to 2013/14 expenditure to 31 Dec 10 (Qtr 3)

old cost centre	new cost centre	officer resp.		exp. to 31.3.10	original budget 2010/11	revised 2010-11 inc cfwd	actual at end Dec 10	proposed 2011/12	proposed 2012/13	proposed 2013/14	proposed estimated total cost	F/Y Rev. cost once complete	comments
		key		£	£	£	£	£	£	£	£	£	
			Proposed funding										
	YA01	PD	Flood prevention, Environment Agency grant	(10,650)	(151,800)	(155,650)	(4,988)		(60,000)		(226,300)		additional grant
	YC03	IRM	Upgraded parks - contributions	(70,880)		(1,250)	(2,000)				(72,130)		
	YC06	AW	Pitches, pathways at Mably Way Grove grant rec'd	(20,781)		(12,269)					(33,050)		
	YC15	AB	Public Arts projects funded by contributions	(150,667)	(100,000)	(100,000)	(39,051)				(250,667)		all funded from contributions
W93	YH05	PH	Gov't subsidy to Disabled Facilities Grant, existing	(533,550)	(510,000)	(510,000)	(510,000)	(510,000)	(510,000)	(510,000)	(2,573,550)		limited by DCLG
	YP05	MG	Electronic delivery of planning service PDG	(77,582)		(22,421)					(100,003)		
	YP06	AW	Cyclepath Willow walk. Contribution from developer	(2,000)	(43,000)	(48,000)					(50,000)		
			Balance from capital receipts	(2,564,601)	(4,877,549)	(5,141,650)	(2,977,145)	(1,066,597)	(761,809)	(514,200)	(10,048,855)		
			Capital receipt c/f from previous year		9,446,500	9,776,491	9,776,491	8,832,846	9,541,249	9,279,440			
			projected increase in capital receipts in year		2,825,000	2,970,000	2,033,500	1,775,000	500,000	250,000			no allowance for West Way
			Capital receipt balance to b/f		7,393,951	7,604,841	8,832,846	9,541,249	9,279,440	9,015,240			

Capital Receipts projection revised Oct 2010

Old Gaol

Mobile Home Parks development

Homeless hostels and Grove Street

West Way redevelopment

Executive
11 February 2011

Report of Head of Finance **Report No. 100/10**

Author: Steve Lawrence

Telephone: 01235 540321

Textphone: 18001 01235 540321

E-mail: steve.lawrence@whitehorsedc.gov.uk

Wards affected: all

Executive member responsible: Councillor Richard Webber

Tel: 01235 534001

E-mail: richard.webber@whitehorsedc.gov.uk

To:	EXECUTIVE on	11 February 2011
	COUNCIL on	23 February 2011

Treasury management mid-year monitoring report 2010/11

Recommendations

That the Executive:

Considers any comments from Audit & Governance Committee and recommends council to note the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that the council's prudential indicators are reported to council in year. The report provides details of the treasury activities for the first six months of 2010/11, provides an update on the current economic conditions affecting treasury management decisions and looks ahead at the activities for the remainder of the year.

Strategic objectives

2. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to meet the council's other strategic objectives.

Background

3. Part one of the Local Government Act 2003 introduced the *Prudential Code for Capital* Finance *in Local Authorities*, under which local authorities are required to comply with the *CIPFA Code of Practice on Treasury Management in the Public Services*. This was revised in December 2009, and introduced a requirement to provide a half yearly monitoring report on treasury activity.

4. The 2010/11 to 2012/13 treasury management strategy was approved by council on 17 February 2010. It outlined the expected prudential indicators for 2010/11 and set out the expected treasury management operations for the period. It also nominated Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5. This report provides details on the economic issues and interest rate movements for the first six months of 2010/11, together with information on the treasury activity and performance against prudential indicators and benchmarks set for the year.

Treasury management advisers

6. The council has used Butlers as its treasury management consultants. Butlers are a business division of ICAP Securities Limited. On the 4th October, ICAP plc announced its decision to transfer the services provided by Butlers to Sector Treasury Services Limited following a strategic review of the provision of treasury consultancy services.

7. Sector is a subsidiary of the Capita Group plc and is a leading independent provider of treasury advisory services to the public sector. From the 25 October the council's contract with Butlers was assigned to Sector in its entirety.

8. Sector will continue to perform and execute the obligations under the contract, which will formally terminate on the contract renewal date, July 2011. The majority of Butlers' staff transferred to Sector on 25 October 2010 and we therefore do not expect there to be a disruption to the service provided. 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.

9. Sector's services include the provision of credit rating information, strategic advice including a review of the investment and borrowing strategies and policy documents, advice to assist the council to formulate a view on interest rates, performance indicators and fund management performance monitoring.

Economic conditions

10. This year the global financial markets have been concerned with the financial crisis in the euro-zone, triggered by the threat of sovereign debt default by Greece, a last minute rescue from a total collapse of the euro single currency mechanism and, more recently, a second victim of the debt crisis in Eire. In the UK, the Government has announced the most severe package of public sector spending cuts since the Second World War, the effects of which will be felt by local government for many years to come.

11. Any policy decisions will have a major impact on the movement in interest rates. There continues to be exceptional uncertainty about the future direction of the economy which is evidenced by members of the Bank of England (BoE) Monetary Policy Committee (MPC) having opposing views on the direction the BoE base rate should move, if at all.

12. The BoE has forecast that inflation will remain above target until 2012. However, despite this, there is a general consensus that interest rates will rise only very gradually through to

2014. This view is qualified by some who are worried by the potential inflationary pressures further quantitative easing (QE) may generate.

13. The economic environment remains difficult and concerns over investment counterparty risk mean that the council continues to restrict itself to short term investments with high quality counterparties. This means that investment returns remain very low.

Icelandic banks – Landsbanki

14. The council had an investment of £1 million (plus interest due of £4,890) with the failed Icelandic bank Landsbanki Islands hf. There have been no repayments to date. The Landsbanki Winding-up Board are of the view that fixed-term depositors such as local authorities have priority status as creditors. This has been challenged by other creditors who would not have priority status and this issue is scheduled to start being heard by the Icelandic court in February 2011.

15. The latest estimate of the recoverable amount with priority status is 95%. If the council does not receive priority status the estimate for expected repayments is below 40%. Any recovered amount is likely to be paid in instalments over a number of years.

Current investments

16. The council's investments at 30 September 2010 were as follows (not including that with Landsbanki as above):

Cash deposits at 30 Sept. 2010, maturity period,	Total £'000	%
Money market fund (Instant access)	2,550	21%
Up to 1 week	1,000	8%
1 – 2 weeks	4,500	37%
2 – 3 weeks	--	
3 – 4 weeks	--	
1 – 2 months	2,000	17%
2 – 3 months	--	
3 – 4 months	2,000	17%
greater than 4 months	--	
Total in-house investments	12,050	100%
Investec Asset Management (see below)	15,376	

(maturity periods refer to time remaining to end of term).

17. The council currently holds all of its cash investments in the form of cash deposits which have been placed for fixed terms with a fixed investment return. During the first half-year investments have been made with nine building societies, three banks and a local authority. Of the in-house investments at 30 September, £2.55 m (21%) was with the Money market fund, £3.5 m (29%) was with UK banks and £6.0 m (50%) with building societies as follows:

Cash deposits at 30 Sept. 2010		Amount £'000
Banks	Close Brothers Ltd Santander UK plc	1,000 2,500

Building Societies	Coventry Kent Reliance Norwich & Peterborough	2,000 3,000 1,000
Money Market Fund	Goldman Sachs Asset Management	2,550
	Total	12,050

18. Some of the council's cash is held by a fund manager, Investec Asset Management, which is allowed to use a wider range of investments, such as certificates of deposit (CDs - fixed term securities issued by financial institutions) and Government stock (also known as gilts and similar to CDs but issued by the Treasury) which can be traded and whose value fluctuates as interest rates move and the maturity date approaches. Some of these investments could have nominal maturities of up to five years, however, from the council's point of view this whole sum can be regarded as almost instant access since the fund manager operates in such a way, and deals with sufficient volumes, that he could repay our holding at short notice if required.

19. The council's total investments shown above at 30 September exceed the total cash-backed reserves and balances in the accounts. This is because council tax and non-domestic rate income is received earlier in the year than the dates it has to be paid over to precepting authorities or the government.

20. Interest earned in-house in the first six months of the year totalled £44,600 on an average balance of £12.193 m. This equates to an annual rate of 0.63%. Investec made £76,970 before fees, equivalent to an annual rate of 1.0% (0.82% after fees). As part of the budget setting process the accountancy team attempt to gauge income and expenditure patterns for this, and future, years and the most likely rate of return in the year in order to predict investment income for the MTFP.

Cash deposits

21. It has continued to remain difficult to place investments because of the reduced number of counterparties that meet the council's credit criteria. The Financial Services Authority (FSA) has introduced liquidity regulations for banks and building societies. The regulations restrict the amount of highly liquid type investments the organisations can hold. As a direct result of this, these organisations are changing the types of short term cash investments offered. Call accounts in particular are being wound down, and notice deposit accounts are being offered as alternatives. In addition building societies have reduced their demand in the wholesale money markets, because they are lending between themselves instead of coming to the wholesale money markets for funds, particularly for short term maturity periods of between three and six months.

Interest rate movements

22. UK short-term interest rates have fluctuated in a very narrow range during the first six month of the financial year. The bank rate has remained at 0.5%, whilst inflation has been above target (increase in RPI for the year to September 2010 was 4.6%). Long-term interest rates peaked in the early part of the financial year.

23. Weak consumer growth, job uncertainty and a desire to reduce personal debt are key factors affecting expenditure growth. Increases in VAT and national insurance will also affect consumer spending. The BoE MPC is considering whether to continue to boost the available credit with further quantitative easing (QE).

24. Market expectations are that the BoE MPC will need to raise interest rates to counter the effects of external costs pressures coming through in commodity prices in 2010. In the longer term rates are still uncertain.

25. Sector's forecast of the expected movement in medium term interest rates:

Medium-term interest estimates (averages)

Annual Average	Bank Base Rate	Forecast lending rates %		PWLB Rates (borrowing)		
		3mth	12mth	5yr	10yr	50yr
2010/11	0.5	0.7	1.5	2.6	3.7	4.7
2011/12	0.7	1.0	1.8	3.3	4.3	5.4
2012/13	1.7	2.0	2.8	4.2	4.8	5.6
2013/14	3.1	3.2	3.7	4.8	5.3	5.7
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.4	5.5

Source: Sector Forecast 15 November 2010

26. Whilst the current market uncertainties remain the recommended strategy in general is to lend for relatively short periods but to look for opportunities to fix lending for longer periods with highly rated institutions. Because of the limited scope of the in-house operation this is the usual strategy anyway. As always, other investment opportunities are assessed and reviewed as they appear but they are generally only suitable for larger amounts and much longer periods than can be made use of. One possibility being assessed is bringing some of the money currently with the fund manager back in-house and investing it for a longer period at a fixed rate. Current economic conditions are making it very difficult for fund managers in general to achieve good returns and are also encouraging them to be very cautious. There are still advantages in using a fund for the diversity and the quality of counterparty but if the right opportunity can be found, a higher return might be obtained and give more certainty of return over the next year or two.

Performance

27. Security of investments will always take precedence over returns but in order to assess and monitor the council's investment performance the treasury management strategy benchmarks returns against 7 day LIBID (the rate at which banks lend to each other) and, for the fund manager, the average performance of comparable funds. These indicators are now provided by Sector.

Investment returns half year to 30 September 2010

All rates annual equivalent	Actual return	Benchmark return	Above/(below) benchmark	Benchmark used
In house team	0.63%	0.50%	0.13%	7 day LIBID
Investec Asset Management	0.82% 0.82%	0.55% 0.84%	0.27% (0.02%)	110% 7 day LIBID industry average

Treasury management limits on activity

28. In accordance with the statutory guidance and codes of practice the annual strategy contains targets for benchmarks relating to security and liquidity. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in

interest rates. They are aimed at large authorities with much more extensive treasury operations than the Vale. This authority has no variable rate investments, no investments over more than one year and no borrowing of any sort. The limits are shown below:

Liquidity and yield

29. The current position against the original benchmarks approved in February 2010 is:

	Target	April – Sept 2010
Bank overdraft - amount	£nil	£nil
Minimum amount available next day	£0.5 million	£0.895 million
Weighted average life of investments - maximum - average	 182 days 21 days	 54 days 25 days

All investments have been made within the limits set by the Annual Investment Strategy.

Credit risk - security

30. Credit risk arises from deposits with banks and financial institutions, as well as exposure to the council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements set out in the Annual Investment Strategy. Investments with very good quality counterparties would be allowed for up to three years and it is possible, using historic default tables, to calculate an average risk of default as a percentage of the portfolio for annual periods up to three. During the first half of 2010-11 the authority has had no investment for a period greater than 6 months.

Debt activity during 2010/11

31. The council does not have any long term debt and current policy is not to borrow to fund capital expenditure. The Treasury Management Strategy sets a limit on borrowing of £5 million to provide the scope and flexibility for the council to cope with any temporary cash shortage. During the first half year 2010-11 the authority borrowed £2 million for 5 days at the beginning of April to cover the usual shortage of cash at the end of March.

Recommended changes to the treasury management strategy

32. Council approved the 2010/11 treasury management strategy on 17 February 2010 and there is no need for any changes to the strategy at this time.

Financial implications

33. This time last year forecasts were that inflationary pressures would mean that interest rates would have to start rising through 2010-11 to 2012-13. This hasn't yet happened and the current outlook for growth for the UK economy means that financial institutions are not lending and interest rates are very low and likely to remain so. This, coupled with changes to the timing of expected capital receipts and increased capital spending means that the budget for investment income forecast now is well down on that done in February 2010 and this is reflected in the current medium term financial plan:

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Original budget 2010/11	489.9	773.9	1,498.5	1,450.6	1,450.6
Revised for budget 2011/12	240.0	371.8	669.7	993.7	1,213.3

Difference	249.9	402.1	828.8	456.9	237.3

Legal implications

34. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential code for capital finance.

35. All the council's investments are, and will continue to be, within its legal powers.

Conclusion

36. This report provides details of the treasury management activities for the period 1 April 2010 to 30 September 2010 and the mid year prudential indicators to council.

37. These details confirm that treasury activities have operated within the agreed parameters set out in the approved treasury management strategy, and provides the monitoring information for Audit and Governance Committee to fulfil the role of scrutinising treasury management activity.

Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes
- CIPFA Prudential code for capital finance in local authorities
- Treasury Management and Investment Strategy 2010/11 to 2012/13 (Executive 5 February 2010, Council 17 February 2010)
- VWHDC Fund Manager review April to September 2010 published by Butlers 27/10/10

Executive
11 February 2011

Report of Head of Finance

Report No. 101/10

Author: Steve Lawrence

Telephone: 01235 540321

Textphone: 18001 01235 540321

E-mail: steve.lawrence@whitehorsedc.gov.uk

Wards affected: all

Executive member responsible: Councillor Richard Webber

Tel: 01235 534001

E-mail: richard.webber@whitehorsedc.gov.uk

To:	EXECUTIVE on	11 February 2011
	COUNCIL on	23 February 2011

Treasury Management and Investment Strategy 2011/12 to 2013/14

Recommendations

That Audit & Governance Committee approves each of the following key elements of this report, and recommends these to the Executive:

a) The Treasury Management Strategy 2011/12 to 2013/14, and the treasury Prudential Indicators contained within Appendix A (paragraph 36).

b) The Authorised Limit Prudential Indicator as shown in paragraph 6 of the strategy.

c) The Investment Strategy 2011/12 contained in the treasury management strategy (Appendix A), and the detailed criteria included in Annex A1.

That the Executive endorses these decisions and recommends them to Council.

1. Purpose of Report

1.1 This report outlines the council's Treasury Management prudential indicators for 2011/12 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities) forms part of the budget proposal considered at the Council meeting in February. The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;

- If the council borrowed to fund capital expenditure it would need a **Minimum Revenue Provision (MRP) Policy**, which sets out how the council will pay for capital assets through revenue each year. This is not applicable to this council at the moment but if it was, a report would be brought forward prior to the year in which it would happen; (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- The **treasury management strategy statement** which sets out how the council's treasury service will 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 is 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. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown in Appendix A;
- The **investment strategy** which sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and also shown in Appendix A.

2. Relationship with Corporate Plan

2.1 The report contributes to the Strategic Objective of managing our business effectively by providing value for money services that meet the needs of our residents and service users.

3. Background

3.0 <u>Local Government Investments</u>

3.1 Local Authorities' powers and practices for investing their surplus funds are contained in Part 1 of the *Local Government Act 2003.* The act allows the Secretary of State to issue guidance on investments and to specify other guidance which should be followed. Guidance was issued in March 2004 and specified that regard should also be had to the *Treasury Management Code of Practice* and *The Prudential Code for Capital Finance* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.2 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The CLG issued Investment Guidance in 2010. The revised guidance arising from these Codes was incorporated in the report agreed last year, February 2010.

3.3 The general objective remains that local authorities should prudently invest surplus funds held. Priority should be given to security and liquidity but it is reasonable to seek the highest return consistent with those aims. The guidance specifically discourages the use of speculative investments such as equities. Borrowing to invest remains unlawful.

3.4 The guidance also applies to investments made through external fund managers.

3.5 For some time the council has used Butlers as its treasury management consultants. Butlers were a business division of ICAP Securities Limited. On the 4th October 2010, ICAP plc announced its decision to transfer the services provided by Butlers to Sector Treasury Services Limited following a strategic review of the provision of treasury consultancy services. Sector is a subsidiary of the Capita Group plc and is a leading independent provider of treasury advisory services to the public sector. From the 25 October the council's contract with Butlers was assigned to Sector in its entirety. The majority of Butlers' staff transferred to Sector on 25 October 2010 and we therefore do not expect there to be a disruption to the service provided.

4.0 <u>Treasury Management and Investment Strategy</u>

4.1 The legislation requires an annual Treasury Management & Investment Strategy Statement. This sets borrowing limits, investment objectives, approved organisations for investment, guidelines and performance criteria for the in-house operation.

4.2 The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

5. Options

5.1 There are no alternative options put forward. The council is legally required to agree a strategy. The strategy proposed has been produced in consultation with Sector as complying with the regulations and meeting the council's operational requirements.

5. Financial, legal and any other implications

5.1 The report gives financial information to help Members manage their services. There is no additional expenditure involved.

6. Conclusion

6.1 Members are asked to review the Treasury Management and Investment Strategy and the indicators included and recommend its approval to Council.

Background Papers:

CIPFA – Code of Practice on Treasury Management. (Revised. Pub. 27.11.09)
CLG – Guidance on Local Government Investments.
Sector – Capital Watch information sheet published 15 December 2010

Treasury Management Strategy 2011/12 – 2013/14

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.

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 2011/12 – 2013/14

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.

	2010/11 Revised	2011/12 Estimated	2012/13 Estimated	2013/14 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	£13.5	£10 million	£14 million	£13 million

March	million			

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

Expected Movement in Interest Rates

Medium-Term Rate Estimates (averages)

Annual Average	Bank Rate	Forecast lending rates		PWLB Rates (borrowing)		
		3 month	1 year	5 year	20 year	50 year
2010/11	0.5	0.7	1.5	2.6	2.6	4.7
2011/12	0.7	1.0	1.8	3.3	3.3	5.4
2012/13	1.7	2.0	2.8	4.2	4.2	5.6
2013/14	3.1	3.2	3.7	4.8	4.8	5.7
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.3	5.5

Sector forecast 15 November 2010

7. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced and recent growth data has come in at the high side of expectations. Nevertheless, this higher rate is unlikely to be sustained, with growth expected to revert back to more insipid levels. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and tenuous consumer confidence means the threat has still not evaporated completely.

8. The Office for Budget Responsibility has presented a realistically downbeat view of the economy's recovery prospects over the short and medium term, projecting that growth will struggle to exceed its trend rate in the current parliament. The Government's determination to cut the size of the public sector deficit considerably more quickly than its predecessor will be a drag upon activity in the medium term.

9. The void left by significant cuts in public spending will have to be filled by a number of alternatives – corporate investment, rising exports and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and a strong recovery in this area is by no means certain. The combination of the desire to reduce the level of personal debt and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, outlined in the Budget and expanded upon in the 20 October Comprehensive Spending Review. Without a rebound in personal spending, any recovery in the economy is set to be weak and protracted.

10. The Bank of England admits that inflation will remain above target until 2012. Inflation performance remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring a deterioration from the current situation, the MPC will be prepared to hold rates at very low levels until the latter stages of 2011.

11. The outlook for long-term interest rates is favourable in the near term but is set to deteriorate in the latter part of 2011. Yields will be suppressed by continued investor demand for safe haven instruments following the uncertainties and unfolding tensions within the entire Eurozone. In addition to this, the market has been

underpinned by evidence of decelerating activity in major economies and the coalition government's apparent determination to deal with the parlous state of public sector finances. These two factors will restrict any deterioration in gilt market performance in the near term.

12. However, while the UK's fiscal burden will almost certainly ease, it will be a lengthy process and deficits over the next two to three financial years will still require a very heavy programme of gilt issuance. The latest Bank Inflation Report suggests the market will not be able to rely upon Quantitative Easing indefinitely to alleviate this enormous burden.

13. Eventually, the absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.

14. This incentive will take the form of higher yields. The longer end of the curve will suffer from the lack of support from the major savings institutions – pension funds and insurance companies - who will continue to favour other investment instruments as a source of value and performance.

15. The front end of the curve will benefit from heavy purchases by banks as they seek to meet the FSA's proposed liquidity requirements. This will be a major benefit to the Government's gilt funding operations in the near term and will ensure the steeply-positive incline of the yield curve remains intact.

Investment Strategy 2011/12 – 2013/14

16. **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.

17. **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>.

18. 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.

19. 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.

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

21. 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.

22. 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.

23. **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.

24. 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.

25. 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.

26. 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.

27. 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.

*Author's note: at Audit and Governance Committee (A&GC) on 12 Jan 11, there was much discussion about the 'Banks 4' bullet below. It was resolved that the A&GC chairman in conjunction with two committee members and the s.151 officer would review and suggest a reworded bullet. The Executive briefing on 21 Jan 11 was advised that this rewording was being undertaken and the Executive requested that both options for the bullet point were included in the Executive report. Below is the original bullet followed by the A&GC amended bullet. The Executive needs to decide on the best wording to go to Council. Please note that under the revised bullet, current ratings will enforce the Head of Finance to start to negotiate an exit from the council's banking contract immediately. This **will** have financial implications for the Council and may make any future transactional banking contract either unlikely to attract tender counterparties or considerably more expensive.*

- **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.

Or

- **Banks 4 – Existing Transactional Banker** – if the Council's transactional banker falls below the criteria of **Banks 1 or 2,** pending the exit from that contract at the earliest practicable and cost effective point, and holding the minimum practicable and cost effective balances in size and duration.

- **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**

28. **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.

29. **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.

30. **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.

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

32. 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.

33. 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.

34. **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 late 2011. The council's investment decisions are based on comparisons between the rises priced into market rates against the council's and advisers own forecasts.

35. 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.

36. **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.**

37. 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

38. 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.]

	2011/12	2011/12

	Estimated + 1%	Estimated - 1%
Revenue Budget variance		
Investment income	+ £240,200	- £238,600

Treasury Management Prudential Indicators and Limits on Activity

39. 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.

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

£m	**2011/12**	**2012/13**	**2013/14**
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 2011/12 – not applicable			
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£20 m	£20 m	£20 m

Performance Indicators

41. 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, 110% 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

42. The council uses Sector 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.

43. 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

44. 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 CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. 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.	AAA long term rating. 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	£3 million

	an investment category subject to a guarantee from the parent company, and a maximum period of investment of 6 months	
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. Sector 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 Sector assume investments of £50 million spread 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.

Executive

11 February 2011

Report of Head of Finance

Author: Ben Watson

Telephone: 01491 823834/01235 540488

Textphone: 18001 01491 823834/ 18001 01235 540488

E-mail: ben.watson@southandvale.gov.uk

Report No. 102/10

Wards affected: (All)

Cabinet member responsible: Rodney Mann	Executive member responsible: Richard Webber
Tel: 01844 281766	Tel: 01235 534001
E-mail: rodney.mann@oxweb.net	E-mail: richard.webber@whitehorsedc.gov.uk
To: CABINET	To: EXECUTIVE
DATE: 14 February 2011	DATE: 11 February 2011

Ongoing provision of concessionary fares services

Recommendations

(a) **That Executive recommends each council to approve entering into an agency agreement on a full cost recovery basis to provide the customer element of the concessionary fares service on behalf of Oxfordshire County Council for the 2011/12 financial year**

(b) **That Executive recommends each council to delegate the authority for negotiating the detail of the agency agreement to the Chief Financial Officer**

(c) **That subject to recommendation a) Executive agrees to extend the Applied Card Technologies (ACT) contract for the provision of a Customer Management System (CMS) for a 12 month period**

(d) **That subject to recommendation a) Executive agrees to enter into a contract with the existing supplier Euclid Limited for the manufacture and despatch of concessionary bus passes for a 12 month period**

Purpose of Report

1. From 1 April 2011 South Oxfordshire District Council and Vale of White Horse District Council will no longer have any statutory responsibilities for providing concessionary fares services: they will become the responsibility of Oxfordshire County Council. However, to ease the transition between the tiers of local government, the county council has asked if the districts would continue to provide the "customer" element of the services for a further year. The "customer" element of the services comprises processing applications for bus passes; ordering replacement passes; dealing with customer enquiries, etc. It will not involve any work relating to reimbursement of bus companies.

2. This report will seek approval from Cabinet and Executive to:

    a) Provide concessionary fares services on an agency basis on behalf of Oxfordshire County Council for one year

    b) Extend and award contracts to third-party suppliers to enable the services to be delivered

Strategic Objectives

3. **Strategic objective – "managing our business effectively":** Although the statutory responsibility for providing concessionary fares is moving to Oxfordshire County Council with effect from 1 April 2011, South Oxfordshire District Council and Vale of White Horse District Council are being asked to provide the service for a further year. If South and Vale are to do this, necessary arrangements need to be put into place to ensure there is no disruption to the service, or reduction in level of service provision.

Background

4. The Concessionary Bus Travel Act 2007 placed a statutory duty, effective from 1 April 2008, on "Travel Concession Authorities" (TCA's) to issue bus passes that adhered to a national specification to eligible residents. South Oxfordshire District Council and Vale of White Horse District Council are both TCA's. The bus passes entitle passholders to free travel on local bus services throughout England during specified times. TCA's are required to reimburse bus operators for these journeys.

5. The specification for the bus passes requires them to conform to a national physical design, varied only by individual council logo, and to contain a microchip encoded to "ITSO" standards: these were defined as "smartcards". ITSO is a technical specification created to provide interoperability for smart ticketing in public transport.

6. To assist the implementation of these new requirements the Department for Transport (DfT) put in place framework agreements with certain suppliers so that TCA's could enter into contracts without the need for conducting their own procurement exercises. The suppliers were offering services for the production of smartcards and the provision of "Customer Management Systems" (CMS) for the maintenance of customer records.

7. South and Vale decided to take advantage of the framework arrangements and through the frameworks appointed Fujitsu to undertake smartcard production and Applied Card Technologies (ACT) for CMS provision. In autumn 2009 both councils decided to test the market for smartcard production and, following a tender exercise, selected Euclid Limited as their preferred supplier for smartcard provision with effect from 1 January 2010. The contracts with ACT and Euclid Limited are both due to expire on 31 March 2011.

8. The work involved in providing concessionary fares services can be split into two main elements – i) customer services (currently provided by Capita as part of the wider financial services contract and involves processing bus pass applications, dealing with customer enquiries, etc), and ii) reimbursement to bus operators (currently provided in-house and involves determining reimbursement levels, processing operator claims, dealing with operator appeals, etc).

9. On 31 March 2010 the Concessionary Bus Travel Act 2007 (Variation of Reimbursement and Other Administrative Arrangements) Order 2010 was approved by Parliament. This order amended the definition for Travel Concession Authorities so that in two-tier areas, district councils are no longer TCA's; county councils are the responsible body. This change is effective from 1 April 2011 and means that from April South and Vale will no longer have any statutory responsibilities or powers to provide concessionary fares.

Current position

10. Whilst Oxfordshire County Council is prepared for taking on the reimbursement of bus operators element of the concessionary fares service from 1 April 2011, it is not in a position to provide the customer element of the service. Because of this it has approached the five Oxfordshire districts and asked if they would be able to provide the customer element of the service for a further year. The county council will put into place an "agency agreement" with each of the district councils which will devolve responsibility for the customer element of the service back to the districts.

11. South and Vale had previously given notice to Capita that the concessionary fares element of the financial services contract would cease with effect from 31 March 2011 due to a change in legislation. However, following the approach from the county council, officers asked Capita if it would provide the service for a further year. Capita has agreed to do this on the same terms and conditions as previously agreed.

12. In addition to the work undertaken by Capita, South and Vale will require a Customer Management System (CMS) to manage customer records, etc and will require a company to physically produce bus passes and distribute them to customers. The councils currently have contracts for the provision of these services but they expire on 31 March 2011. Tender exercises could be undertaken for the provision of these services for the period 1 April 2011 to 31 March 2012 but, given the short timescales involved, there would be substantial risk involved: in either case, if a new supplier were chosen, there would be very little time to robustly manage the transition from the current supplier.

13. Section J of the councils' Contracts Procedure Rules provides exceptions that allow contracts to be approved without seeking quotations or tenders if there are special circumstances which justify the exception. Specifically, paragraph 77 allows exceptions to be authorised by the Cabinet or Executive. Therefore, to reduce the risk involved with providing the concessionary fares service for a further year and to ensure that there is no disruption to service provision, officers believe that extending the contract with ACT for the provision of a CMS and awarding a one year contract to Euclid Limited for the manufacture and despatch of bus passes is the appropriate course of action to take. The costs of the contracts are not expected to exceed the current European Union threshold of £156,000 so the councils can rely on their own contract procedure rules.

Options

14. Because both councils will not have a statutory responsibility for concessionary fares they could simply decide not to assist the county council by providing the service for a further year. However, there are a significant number of residents in both districts that hold bus passes (21,000 South, 23,000 Vale) and this is increasing year on year.

15. For many of these residents, and those who will be first time bus pass recipients during the course of the year, their bus pass contributes to their well-being. Officers therefore consider it necessary to ensure there is no disruption to this valuable service. In view of this, officers believe that the only viable option is to assist the county council by providing the customer element of the concessionary fares service for a further year.

Financial Implications

16. At present neither council has a budget for providing the customer element of the concessionary fares service from 1 April 2011. Because the councils' statutory responsibilities have been removed, the respective budgets have also been removed and neither council will be receiving central government funding.

17. Therefore, if South and Vale are to provide a concessionary fares service for a further year, the county council will need to reimburse them in full to prevent the costs falling on South and Vale taxpayers.

18. Officers' current best estimate is that providing the service for a further year will cost **£90,750** at South Oxfordshire District Council and **£94,550** at Vale of White Horse District Council. The total amount of reimbursement that will be sought from Oxfordshire County Council is **£185,300**. The costs at both councils include a "risk premium" of £5,000. Full details of the costs are set out in **Appendix 1**.

19. The county council has been advised that, should any of the costs increase for any reason, South and Vale will be passing on the additional costs. It is therefore expected that all expenditure on the customer element of concessionary fares during 2011/12 will be fully recouped from Oxfordshire County Council.

20. In addition to the costs for 2011/12, South and Vale have incurred expenditure during the current financial year because of the unexpected work required to prepare for providing the service for one more year. This expenditure currently amounts to £2,045 and will also be recouped from Oxfordshire County Council.

Legal Implications

21. The "Concessionary Bus Travel Act 2007 (Variation of Reimbursement and Other Administrative Arrangements) Order 2010" removes shire districts' statutory responsibility for concessionary fares with effect from 1 April 2011. This means that South and Vale have no legal powers to provide concessionary fares services, or incur expenditure for concessionary fares after 31 March 2011.

22. Oxfordshire County Council will issue an "agency agreement" to South Oxfordshire District Council and Vale of White Horse District Council which will devolve responsibility for providing the customer element of concessionary fares back to the district councils for one year commencing 1 April 2011. The county council will use the powers provided in Section 101 of the Local Government Act 1972 to do this.

23. South and Vale both need to extend the contract for the provision of a CMS and award a contract for the manufacture and despatch of bus passes. It is the view of officers that this is best resolved by extending the contract with ACT for CMS provision and awarding a one year contract to Euclid Limited for manufacture and despatch of bus passes.

24. The combined total of these contracts is not expected to exceed the current European Union threshold of £156,000 so the councils can rely on their own contract procedure rules. Ordinarily these rules would require the councils to obtain three tenders from suppliers. However, given the unique situation and tight timescales, officers wish to use one of the exceptions listed in the contract procedure rules and are asking Cabinet and Executive to authorise the award of the contracts to the suppliers currently being used.

Risks

25. Concessionary fares is a high profile service with approximately 21,000 customers at South and 23,000 customers at Vale benefiting from the service. Although concessionary fares will be the responsibility of Oxfordshire County Council from 1 April 2011, because it is the districts that currently provide the service, any failure or deterioration in service levels is likely to reflect badly upon South and Vale.

26. Officers have undertaken an exercise to identify risks associated with the immediate and ongoing provision of the concessionary fares service. Four main risks were identified which are:

Risk	Net risk rating
"Agency agreement" with county council not in place by 1 April 2011	B1
Oxfordshire County Council fails to reimburse councils for providing the service	E3
Contracts with 3rd party suppliers (ACT & Euclid) not in place for 1 April 2011	E1
Bus passes due for renewal by 31 March 2011 do not get renewed	E2

27. Officers will be working closely with Oxfordshire County Council, Capita and the third-party suppliers (ACT & Euclid) to manage these identified risks.

Equality and diversity implications

28. For many residents in South Oxfordshire and the Vale of White Horse, their only means of travel is by public transport and the ability to use such transport free of charge can make a real difference to the elderly and disabled. It is therefore imperative that the concessionary fares service provided meets customers' needs.

29. Because Oxfordshire County Council is not in a position to fulfil its statutory duties in respect of concessionary fares, and given the importance of the service to many residents, officers believe it necessary to assist the county council by providing the customer element for a further year. To do otherwise could adversely affect customers' well-being.

Human resource implications

30. There will be human resource implications for both councils which will mainly be from the Legal and Democratic service and the Finance service.

31. As far as Legal and Democratic is concerned, the resource will be ensuring that all the necessary procedures and constitutional requirements have been followed and the agency agreement with the county council is legally robust.

32. The resource implication in Finance will be from putting all of the arrangements in place prior to 1 April 2011 and the ongoing contract management of our contractors throughout the year. As with all other costs, the councils will be recouping the human resource costs from the county council.

Conclusion

33. Following a change in legislation, the statutory responsibility for providing concessionary fares services is moving from shire districts to county councils with effect from 1 April 2011. The service itself has two main elements of "customer services" and "reimbursement of bus operators". Oxfordshire County Council will be in a position to deal with the bus operator reimbursement from next April, but not with customer services. Because of this it has approached the district councils in Oxfordshire and asked if they would provide the customer element of the concessionary fares service for a further year.

34. To enable South Oxfordshire District Council and Vale of White Horse District Council to provide the concessionary fares service for a further year the councils require an "agency agreement" from the county council which gives them the necessary powers to provide the service. The councils also need to award contracts to third-party suppliers so that the service can actually be delivered.

35. Concessionary fares is a high profile service which benefits many residents in both districts and contributes to their well-being. Officers therefore consider it necessary to assist Oxfordshire County Council by providing the service for a further year. There are risks involved in doing this but these have been identified and will be managed by officers.

36. All costs involved in providing the concessionary fares service for a further year will be recouped from Oxfordshire County Council so there will be no financial burden on South Oxfordshire and Vale of White Horse taxpayers.

Background Papers

- The Concessionary Bus Travel Act 2007 (Variation of Reimbursement and Other Administrative Arrangements) Order 2010 (SI 2010/1179)

Appendix 1

Ongoing provision of concessionary fares services – estimated costs to be recouped from Oxfordshire County Council

South Oxfordshire

Cost of bus passes, software, etc	£47,000
Capita contract fee	£34,000
Internal overheads	£3,500
Client side costs	£4,250
Risk premium	£5,000
	£93,750
Charges for replacement passes	-£3,000
Total South Oxfordshire costs	**£90,750**

Vale of White Horse

Cost of bus passes, software, etc	£50,000
Capita contract fee	£27,000
Internal overheads	£11,300
Client side costs	£4,250
Risk premium	£5,000
	£97,550
Charges for replacement passes	-£3,000
Total Vale of White Horse costs	**£94,550**

TOTAL SOUTH/VALE COSTS	**£185,300**