SUPPLEMENTARY ONE

SCRUTINY MANAGEMENT BOARD

Wednesday, 11 February 2009

Agenda Item 4. **Budget Process 2009/10 (Pages 1 - 32)**

Agenda Item 5. **Treasury Management Strategy 2009/10 (Pages 33 - 70)**

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SCRUTINY MANAGEMENT BOARD

11 FEBRUARY 2009

REPORT OF THE CORPORATE DIRECTOR OF RESOURCES

Title: Budget Process 2009/10	**For Information and Discussion**

Summary:

This report updates the Board on the formal budget process and latest position on the detailed budget proposals for 2009/10.

This report endorses the decision of the Assembly of 27 February 2008 to commence the Budget process for 2009/10 in April 2008. The report deals with the current position regarding the budget by addressing the detailed proposals for Departmental revenue and capital budgets in 2009/10 and latter years.

The latest position on the budget is that officers have identified the detailed budget proposals for each service area for the Board's consideration and views prior to being considered by the Executive on 17 February.

Wards Affected: All

Recommendation(s)

The Board is asked to:

1. Note the current position with setting the Budget for 2009/10 and latter years.
2. Provide any comments/views on the detailed Budget options for 2009/10 for consideration by the Executive at it's forthcoming meeting on 17 February.

Implications

Financial:
Discussion and confirmation of the options proposed will enable Departmental revenue and capital budgets to be established for 2009/10 along with the setting of the Council Tax for 2009/10.

Legal:
There are no legal implications regarding this report.

Risk Management:
Consideration of the appropriate proposals for the budget process will in itself take account of the risk involved in the delivery of savings and the need to account for increased budget for certain areas.

Social Inclusion and Diversity:
As this report does not concern a new or revised policy there are no specific adverse impacts insofar as this report is concerned.

Crime and Disorder:
There are no specific implications insofar as this report is concerned.

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1. Introduction and Background

1.1 A local authority must have a sound financial planning system if it is to achieve the maximum use of its resources. Financial planning is a critical part of the corporate planning process and involves the whole Council not just the Corporate Finance Service. A successful budget process is therefore reliant on officers and information across the whole Council.

1.2 However, CIPFA's Standards of Professional Practice does make it clear that the Chief Financial Officer "should take all reasonable steps to ensure that budgets are planned as an integral part of the strategic and operational management of the organisation and are aligned with its structure of managerial responsibilities".

1.3 The objectives of good financial planning include:

- helping elected members to determine priorities and their timing;
- forecasting the changes in demand for services;
- identifying the likely implications of changes in legislation on spending;
- identifying the future costs of alternative policies;
- matching demand with likely resources;
- providing a framework for programming activities by individual services.

1.4 The most important short-term planning activity is the preparation of the annual budget, but the annual budget is of limited value as a policy document if it looks only one year ahead. Consequently the Council has in place a three year forward looking financial plan known as the Medium Term Financial Strategy (MTFS), which sets out the framework for using the Council finances to deliver both its community priorities and those objectives highlighted in the paragraph 1.3.

1.5 In addition strong financial planning will be essential in supporting:

- the Government's agenda on the implementation of three year revenue and capital settlements for local authorities;
- the Council's CPA assessment on the use of its resources particularly around financial management, financial standing and value for money.

1.6 One of the key tools to assist in strong financial planning is the need for the Council to have in place a robust budget timetable. The timetable identifies when things need to be undertaken but will provide the framework for ensuring that the financial, strategic and service planning processes fit together.

1.7 A number of detailed exercises have been undertaken with Directors and their management teams in determining all the necessary input into the budget process 2009/10, which has now culminated into the latest budget position being reported to this meeting.

2 Budget Position for 2009/10 and 2010/11

2.1 The MTFS for the three years from 2008/09 to 2010/11 was presented to the Assembly on the 27 February 2008. In projecting income streams and expenditure levels over these two years, the MTFS highlighted a potential deficit in the budget of £9m in 2009/10, and £9.3m by 2010/11.

2.2 In summary the deficit, as identified within the approved MTFS, comprises the following pressures:

- In 2009/10, £21.4m of pressures have been identified, the key areas being increasing Education spending to levels for Dedicated Schools Grant (£6.1m), replenishment of reserves (£0.5m), inflation provision and pension costs (£4.3m), levies (£0.8m), capital programme costs (£1.3m), loss of investment income (£1.3m), Children's Placements (£2m) and additional corporate pressures that need to be funded (£5.1m). This is set against projected increased grant and Council Tax income of only £12.4m.

- In 2010/11 £22.5m of pressures have been identified, the key areas being increased Education spending to levels for Dedicated Schools Grant (£7.2m), replenishment of reserves (£0.3m), inflation provision and pension fund costs (£4.3m), levies (£0.8m), capital programme costs (£1.5m), loss of investment income (£1.3m) and additional corporate pressures (£7.1m). This is set against projected increased grant and Council Tax income of only £13.2m.

Overall these pressures amount to a 2009/10 deficit of £9m and a cumulative deficit over two year period 2009/10 and 2010/11 of £18.3m. In terms of 2011/12 it would not be unrealistic to assume that savings targets will again be in the region of £9m plus per annum.

2.3 Since the MTFS was approved, further detailed work by officers in Corporate Finance have identified that the budget gap is now likely to be in the order of £13.5m for 2009/10 and £11.3m for 2010/11. Whilst there have been reductions in some of the pressures originally identified in the MTFS projections (£0.75m for both 2009/10 and 2010/11), there has however been a number of significant increases such as Children's placements, borrowing costs and replenishment of reserves. If the budget is to be balanced for both of these years then significant savings will need to be made across the Council.

2.4 In previous years savings targets have primarily been based on each department's controllable costs but excluding the following:

- Delegated School Budgets (including departmental recharges to this area);
- Housing Revenue Account (HRA) (including departmental recharges to this area);
- Accountable Bodies;
- Capital Charges;
- Levies;
- Contingency Budget;
- Services which are Grant funded;
- Services funded from the Capital Programme;
- Services funded from the Pension Fund;
- Non-Recurring Budgets;
- Other Uncontrollable items;
- Concessionary Fares;
- Grants to Voluntary organisations;
- ALG/LGA Subscriptions;
- Audit Fees;
- Members Allowances.

2.5 The above direction gave Directors a savings target to work to and to produce relevant proposals for Member's consideration.

2.6 Various work has been undertaken with Directors since July 2008 in identifying and clarifying savings, pressures and invest to save options and new capital schemes for consideration as part of the budget process for 2009/10.

3. Government Funding

3.1 Provisional figures for Government funding for the formula grant have been announced. For our Council, the grant announcement means a cash increase of around £3.9m for 2009/10 for all Council services other than schools.

3.2 The Government have made a number of other announcements regarding the finance settlement, these include:

a) the allocation for the 2009/10 dedicated schools grant of £141.7m which brings additional resources for schools of around £6.4m, which equates to a 4.7% increase.
b) a ministerial statement on capping where the Government expect to see average Council Tax increases substantially below 5%.
c) Various specific grant levels.

Further details on these will be reported as part of the budget process, where relevant.

3.3 The Greater London Authority has currently proposed a freeze on the relevant precept. This shows a sum as per 2008/09 of £309.82 per Band D property. We will know the final position on this precept payment by mid February at the latest.

4. Budget Principles and Issues to address

4.1 For the budget setting purposes inflationary allowances have been made for pay awards (2.5%), additional employers pension fund contributions (1.0%), increases in fees and charges (3.0%). Overall, this means that the Council needs to contend with additional inflationary pressures alone of around £3.5m, as compared to our grant increase of only £3.9m.

4.2 In identifying savings, efficiency savings that have been identified through our annual efficiency programme are a key feature of the savings in the proposals as part of this budget setting process.

4.3 The parameters around the budget reflect the fact that all Council services have been considered as part of the process and that all proposals have recognition for the Councils Community and Corporate priorities.

5 Capital Investment Priorities

5.1 The Council's Capital Investment Strategy was agreed by the Assembly on the 27 February 2008. The overarching objectives within this strategy were as follows:

- Successfully deliver a capital programme which is consistent with the Council's key priorities;

- Maximising external funding to support the delivery of the capital programme consistent with the Councils' key priorities, both from the private sector and through government grant funding; and

- Maximising the utilisation of the Council's assets by:
    - Ensuring that all investment properties are making sufficient returns;
    - Ensuring that non-profitably investment properties and assets surplus to requirements are disposed of as efficiently as possible; and
    - Monitoring the utilisation of assets on a regular basis.

The Capital Investment Strategy also details what the key priorities in relation to capital investment are. They are as follows:

- Investment in our **schools**;
- Investment in key **regeneration and arts** projects across the borough;
- Investment in our **housing stock;**
- Investment in **rolling programmes of upgrade expenditure**, for example on highways; and
- Investment in **improvements in customer services and ICT** through a customer contact centre, one stop shops, and IT infrastructure improvements, which will also result in improved efficiency.

5.2 In addition to these priorities for capital investment, the Council needs to ensure that current assets are maintained to an acceptable standard, and that Health and Safety issues, such as Legionella and Asbestos, are dealt with effectively. The Council also needs to consider "invest to save" projects where up front investment would lead to longer term benefits.

The capital programme is funded from a range of sources, capital receipts, external funding and borrowing and the options proposed reflect these funding arrangements.

6. Latest Position 2009/10

6.1 The current position on the budget is that the base budget for 2009/10 of £293.66m was approved by the Executive on 20 January 2009. In addition, detailed budget proposals are now available for scrutiny and comment by the Board. Overall the process is now being finalised to enable a Council Tax to be set at Assembly on 25 February 2009.

6.2 As identified above detailed proposals have now been produced and are attached as appendices to this report. The relevant lists are as follows:

Reductions across services	-	Appendix A
Pressures on services	-	Appendix B
Invest to Save proposals	-	Appendix C
School Budget proposals	-	Appendix D
Capital Programme proposals	-	Appendix E

6.3 There is now an opportunity for the Board to consider each of the above lists of proposed options for the 2009/10 budget and provide comments for consideration by the Executive.

7. Consultees

7.1 The following people have been consulted in the production of this report.

Corporate Management Team.

Background Papers Used in the Preparation of the Report:
Medium Term Financial Strategy
Information from Government Departments
Information from Council Departments

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

ADULTS & COMMUNITY SERVICES DEPARTMENT

1S Libraries – General costs and staff review - £200,000

Salaries - Delete P/T SO1 Community Librarian post - £29k
Delete Sc3 Library Assistant post- £22k
Delete P/T Sc2 Libraries Admin Officer post- £12k
Delete PO1 Senior Librarian post- £38k

Transport budget - Reduce by £1k

Supplies & Services – Reduce libraries materials fund by £93k
Reduce stationery budget by £5k

2S Income from Charging - £125,000

- Meals on Wheels - price increase on meals £30k, amounting to approx 30p increase, still leaving a subsidy on each meal of over a pound.
- Home care – £60k in additional income from full paying clients (ie those receiving a service with in excess of £22,500 in personal savings, which is approximately 50 service users).
- Day care Charges to Other Local Authorities who place clients in our facilities – £35k.

3S Contracted/Commissioned Services - £1,185,000

This option seeks to achieve efficiency gains through contract variation and re-tendering. It aims to protect services delivered to residents but will require providers to find efficiency savings and /or provide services in different ways. The changes being sought from commissioned services reflect the policy direction set out by the Government in "Putting People First" to achieve a transformational change in delivery mechanisms that will see at least 30% of all service users with self-directed care in place by 2011. This is borne out by local consultation with users who all indicate they would welcome a greater say in both what care is provided and how it is provided to them.

We will save £885k principally reviewing Disablement Association of Barking and Dagenham (DABD) Outlook Care, Age Concern contracts. It is anticipated this will be split accordingly, but this may vary slightly subject to final negotiations:

DABD £150k Outlook Care £300k Age Concern £150k Other £285k

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

We will also save £300k through recommissioning services to Homeless households and young people services provided by in-house and external providers. Several contracts end this financial year and complimentary to this proposal the Foyer opens later in 2008-09.

Savings are through getting greater value for money by tendering or negotiation, or through decommissioning services no longer required.

4S Equalities and Diversity team restructure - £100,000

Delete E&D officers x 2 @ PO4: £93k and reduce Supplies and Services budget: £7k.

This option will require a refocusing of the team's work and will require a new approach to equalities and diversity work. It is planned to achieve this by merging this small team with the community development function in the same division.

5S Administrative staffing reductions – £112,000

The deletion of 4 administrative support posts at a gross cost of £28k each. These savings can be achieved by redesigning work processes.

6S Inflation – Reduction of 1.25% in passporting provision to providers - £438,000

1.25% reduction in inflation to providers allocated in budget process across the following areas:- Estimated gross total value £35m

- Older persons residential/nursing
- Older Persons external care packages
- Physical Disability external packages
- Physical Disability residential/nursing
- Learning Disability residential nursing and external packages.
- Other commissioned services / contracts not detailed
- Individual budgets across all client groups

This option will require all providers to find cash releasing efficiency savings The reduction shown is an average saving as the amounts for each provider will be subject to contractual commitments and negotiations.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

7S Staffing – General reduction in posts (5%) - £525,000

A reduction of 1 in 20 posts (5%) across teams and services (apart from areas subject to other specific savings, or previous large reviews, such as Home Care, Transport , and also excludes LBBD Residential and Day Care Buildings based services) is proposed.

Current calculations suggest a reduction of 17.5 posts and a saving of £525,000.

All managers will be expected to carry out business process reviews in order to achieve reductions without adverse effects on front line services.

8S Contributions from Partners for common services and outcomes - £315,000

Additional support will be sought from the PCT and Partners for services delivered at the partnerships interfaces particularly in Social Care and Health Care – Full engagement in the CSP/PCT process will occur annually and as appropriate with other Partners. We will also actively submit bids to central government (Department of Health Ministry of Justice, Home Office etc) for pilot initiatives that can support planned service delivery. Joint work will also be undertaken with partners to review joint working and release savings for all agencies. It is anticipated that £315k of savings can be achieved.

9S Cessation and reprovision of Transport Contract - £200,000

Three year contract with Northgate Kendric Ash (NKA) ends in March 2009. This is costing £290k per year.

Group Manager post has been recruited to mid-year 2008-09 to ensure sustainability moving forward at cost of c£60k.

Additional management capacity has also been required to ensure improved oversight of operations and efficient use of own fleet instead of relying on external taxi provision. Cost c£30k.

Moving forward there will be an estimated net saving overall of £200k. There is no loss of posts or reduction in service as a result of this exercise.

10S Review of Neighbourhood Management Service - £250,000

Following the launch of this service and the initial pump priming costs it is possible to review the ongoing annual costs of the service. There will be a review of management and administrative staffing costs as well as supplies and services to generate the required saving of £250k, which equates to around 18% of the current gross cost of the service.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

11S Administrative Support - £50,000

The savings will be achieved during 2009/2010 by gaining staffing efficiencies arising from the review of departmental business support and administration. Initially these will be achieved by reviewing the level of staff engaged departmentally in the provision of business support; secretarial; and administration throughout the department. The review will result in fewer staff resources engaged in the department.

12S Leisure Centres – overtime & T&C review - £300,000

Reduction in overtime –currently £12,000 a month – can be achieved by filling posts – particularly 2 posts where staff are undertaking other roles (£50,000)

Review of terms and conditions of staff – identified as key issue during the leisure review – staff are paid enhancements and special rates over and above industry norms – negotiations will be required with the trade unions and staff. Initially there will be a need to complete a detailed review of payments to staff and current working arrangements – there maybe scope for an interim arrangement where some working arrangements are changed e.g. development of flat rate overtime.

13S Income generation – events and swimming - £100,000

Increase in income from additional events and expansion of a swimming development programme.

14S Parks Development Review - £50,000

Reduction in parks development programme – reduction in costs including staffing and operational budgets.

15S Broadway Theatre – R&M Provision - £50,000

Reduction in repairs and maintenance budget for Broadway – cost of future maintenance budget to be based on levels of repair required over the next three years following condition survey.

16S Nursery – income/partnering - £30,000

This relates to the generation of additional income and development of new management arrangements which will increase capacity.

Sub-Total Adults & Community Services Department **£4,030,000**

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

CHILDREN'S SERVICES DEPARTMENT

17S Review of Administration - £92,000

- Delete 1 fte scale 5 (£25k) and 1 fte scale 6 (£25 k) in Commissioning
- Recruitment and Retention administrative support (£12k)
- Inspection and Advisory Service administrative support (£14k)
- General administrative support (£16k)

18S Posts to be funded by Grant - £48,000

- 50% of the costs of a PO2 policy officer post will be charged to the Teenage Pregnancy Grant (£18k)
- 50% of the costs of a Group Manager post will be funded from PCT funding (£30k)

19S Increased Income target - £40,000

- Income to be charged for the use of the Vibe (£25k)
- Compass Project Barking College (£15k)

20S Youth Commissioning - £100,000

Bring Community Personal Advisers in house and reduce amount paid for new Careers Contract.

21S Trewern – review income generation targets - £26,000

The Trewern Outdoor Activities Centre continues to increase its levels of income from activities and higher attendance levels. The target of £26,000 represents an increase of around 13%, it is anticipated that this will be met from a combination of increases in fees (level to be decided) and additional income from increased activity.

22S Community Music Service – review income generation targets - £81,000

The Music Service actively promotes and encourages participation in music throughout the borough and in the main provides free peripatetic music tuition to children. The proposal to increase income generation will have to be met from the combination of contributions from schools, parents, external support and increased charges for performance. The proposal represents an increase of 14% of the current year's income target. It is planned to review all current contributions for performance and activities within schools and the community to establish a fair and reasonable fees/price structure that would not have a negative impact on attainment levels and access to all children and families within the community.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

23S Advisory Teachers - £100,000

Deletion or buy-back by schools of two Advisory Teacher posts.

24S Children's Support IT - £59,000

The saving proposed against the Children's Information Technology support will be achieved by a combination of resource savings/income generation and possible reductions in staffing costs. This will be subject to a review of the service delivery to the schools and others services within Children's Services.

25S LACHES (Looked After Children – Health and Education Support) Restrict LACHES service to those elements of direct educational support for children in Schools - £284,000

The service is being scaled down, with the responsibility for the educational elements transferring to the School Improvement Team. This residual element of three posts will be funded by the Dedicated Schools Grant, but 7.5 posts will be deleted and all other costs will be ceased.

See Appendix A(i) attached for further detailed clarification of savings option.

26S Family Group Conferencing service - £95,000

Reduce the service by one-third, which will mean the deletion of 2 full-time co-ordinators & 1 half time Deputy Team Manager post. After the initial roll out of the team the new level of activity will optimise the cost of the prevention work being delivered.

See Appendix A(i) attached for further detailed clarification of savings option.

27S Participation service – £55,000

Efficiency saving by deleting the Children's Rights Manager post and mainstreaming of duties into other posts.

28S Children and Family Centre – £90,000

Delete 2 qualified social worker posts.

29S Educational Psychology Service – £300,000

Scale back the Educational Psychology Service closer to its statutory minimum functions. Detailed implications of this have not yet been established, but it is expected that 5-6 posts may deleted from the structure as a consequence.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

30S Emergency Duty Team - £60,000

Following review of this team, investigate possible savings through entering joint arrangements with other LAs by the deletion of team manager post.

31S Assessment Service - £80,000

Deletion of 2 family support worker posts in the Assessment team

32S Children in Need Reviewing Service – deletion of service - £106,000

The review of this service provision will allow the deletion of 2 CiNRO posts (PO6).

33S Behaviour Education Support Team – £45,000

The deletion of the post of family support team manager of the Behaviour Education Support Team with streamlining of duties into remainder of service.

34S Leaving Care Team - £69,000

Efficiency savings by the deletion of the DTM post (PO5).

35S B&D TS and Adult College Merger - £100,000

The savings will be achieved during 2009 / 2010 by gaining staffing efficiencies arising from the merger of the Adult College with Barking and Dagenham Training Services. Initially these will be achieved by filling 3 administrative staff and 2 catering staff vacancies at the College with staff from BDTS.

Sub-Total Children's Services Department **£1,830,000**

CUSTOMER SERVICES DEPARTMENT

36S Improve Academy functionality with Anite - £35,000

The total saving from this initiative is £75k. £40k was removed from 2008/09 budget leaving a further £35k to be taken from 2009/10. The saving come from a reduction of 3 posts, 2 at scale 5/6 and 1 at scale 3 from the Pupil/student Services Team in Revenue and Benefits.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

37S Staff Reduction through Business Process Re-engineering of Services - £625,000

Staff costs and reduction in system costs where applications are reduced. At this stage the savings are most likely to be staff costs. BPR is to be carried in the 4 following areas:

1. Member's complaints and resident customer feedback – reduction in staff supervisory posts through collapsing tell-us, members and complaints into a single team within B&D Direct – 3 posts estimated.

2. Council Tax – reduction in staff through reducing handoffs between the B&D Direct team and the revenues team 3 posts estimated.

3. Housing Advice service – through making more efficient use of B&D Direct services – reduction in handoffs to the service, and better use of OSS face to face services – 3 posts estimated.

4. Streetscene – through reduction in staff handling follow-ups, more self service reporting & tracking on-line and reduced repeat calls due to service failure and insufficient information at B&D Direct - 3 posts estimated.

38S Increase income generation by Registrars - £25,000

Increase in revenue for this service.

39S Merge management of Cemeteries with Registrars - £20,000

2 posts reduced to part time.

40S Review opening times of Barking OSS/Reduction in staff - £25,000

Deletion of 1 X Customer Services Officer

41S Reduction in Overtime across Environment & Enforcement Services - £100,000

Reorganisation of work activities allowing a reduced reliance on overtime in Environmental and Enforcement Services. This saving will reduce overtime of Street Cleaning by £50,000, Highways Reactive Maintenance, £20,000 graffiti clearance £10,000 and Parks maintenance £20,000.

42S Increase income generation by Ground Maintenance, Cleaning & Highway Maintenance - £700,000

This saving is to be generated by ensuring these services are appropriately recharged to the Housing Revenue Account.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

43S Supplies & Services – all Services - £430,000

As part of the reduction in posts through BPR and the rationalisation of the establishment it is reasonable to expect savings on general running costs. The Department has reviewed it spending on supplies and services and set the Divisions target savings to be achieved from these budgets.

44S Rationalisation of Customer Services Establishment - £370,000

The Department is conducting a review of all services in order to measure service delivery alongside detailed costings. This is to assist management identify potential savings achievable through service delivery options. This work would be done alongside the BPR programme and will identify long term vacant posts that can be deleted from the establishment.

Initial indications suggest that the vacant posts (and natural wastage) will make up the savings. It is estimated that 18-20 FTE's will be required to meet the target, although it is too early in the process to provide any further details on where exactly this will be achieved.

45S Rationalisation of Administrative and Business Support - £595,000

A fundamental review of all of this support will be undertaken across the Department.

46S Service Charges - £75,000

Staff efficiency savings will arise by moving to annual billing of leaseholder service charges.

47S Divisional management - £20,000

Salary for the Head of Housing Strategy (CO grade) – GF element only £20,000 when the Local Housing Company is formed.

Sub-Total Customer Services Department **£3,020,000**

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

RESOURCES DEPARTMENT

48S Corporate Finance – Review of Structure - £150,000

Savings will be generated in the main through reductions in staffing through the deletion of vacant posts and this will primarily be in:

- Accountancy functions
- Accounts payable
- Payroll

49S Human Resources - £225,000

This saving will be made through the overall review of this service but primarily through reducing FTE staffing level from 18 to 12 in a combined and restructured HR Business Support and Recruitment Service and a reduction in staffing posts in Health Safety and Occupational Health.

50S IT – Review of Staffing - £500,000

Savings will be found by reducing the team by 11 posts.

1 x JNC4, 1 x PO10, 2 x PO7, 2 x PO6, 1 x PO5, 2 x SO2, and 2 x SC3.

Posts will be frozen in 2008/9 during which time the structure will be re-evaluated to ensure a sustainable approach for 2009/10 – ensuring a closer alignment of our services to business needs.

51S Democratic Services Officers - £120,000

Deletion of three posts in Democratic Services (2 x PO4; 1 x PO3)

52S Facilities Management - £25,000

Savings in overtime and procurement costs, plus some income.

53S Communications - £80,000

Deletion of two posts:

Junior Press Officer – which will become vacant following reorganisation.
Internal Communications Officer – current unfilled vacancy.

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

54S Policy - £40,000

Deletion of a post of Policy & Partnerships Officer which will become vacant on the departure of the postholder in early December.

55S Supplies & Services - £235,000

Reduction in expenditure across departmental supplies and services (will cover areas such as stationery, publications, equipment, furniture, subscriptions, etc.)

56S Administrative Support - £50,000

The savings will be achieved during 2009/2010 by gaining staffing efficiencies arising from the review of departmental business support and administration. Initially these will be achieved by reviewing the level of staff engaged departmentally in the provision of business support; secretarial; and administration throughout the department. The review will result in fewer staff resources engaged in the department.

57S Car Parking charges for staff - £100,000

Additional income can be achieved from the Council’s off street car parks by charging staff.

58S Spatial Regeneration – staffing & supplies & services - £240,000

In the first year 2xSc6-PO1 posts, 1 x PO3 post and 1 x PO6 post, plus £50,000 from supplies and services around economic development and feasibility work.

59S Spatial Regeneration – income generation - £250,000

Additional income generated by recovery of costs of existing staff undertaking preparatory works e.g. master planning, on behalf of the Local Housing Company.

Sub-Total Resources Department **£2,015,000**

2009/10 BUDGET SAVINGS - ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

CORPORATE

1C Streamlining of senior management - £1,100,000

Arising from the Chief Executive's review of the top three management tiers of the organisation there will be savings of £1,100,000 in a full year to relevant departmental base budgets.

The review means the Council moving to four departments from five departments with the deletion of one Corporate Director post and approximately 16 group manager posts, which will be subject to final review by Directors and the Chief Executive.

2C Borough newspaper - £75,000

Introduction of a borough newspaper with the consequent cessation of Citizen magazine. In additional, savings will be generated across the Council by job adverts and public notices being placed within the newspaper rather than in local external media. The estimated savings are being finalised and will be subject to this exercise.

3C Review of Essential Car Users Allowance - £300,000

A review has been undertaken of staff in receipt of lump sum payments under the essential car users scheme. Proposals have been made on a restricted criteria for qualification for a lump sum payment. Staff who will no longer be eligible will transfer to a casual user allowance.

Sub-Total Corporate	**£1,475,000**
OVERALL SAVINGS TOTAL	**£12,370,000**

2009/10 BUDGET PRESSURES – ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

ADULT & COMMUNITY SERVICES DEPARTMENT

1P Transition of clients from Children's to Adults – £500,000

As children become adults the funding for the packages of care and support transfer from the Children's Services Department to the Adult and Community Services Department. This year this transition will place major pressures on the adult social care budget as the numbers coming through transition and the size of the packages are significant.

Year on year we are seeing more young people who at the end of their childhood still require adult services. These young people have been previously in secure children's care accommodation or other accommodation for care leavers – and many of these young people present with multiple complex needs. Several young people have attendant severe challenging behaviour and warrant extensive supervision in staffed environments.

Children's Services has seen a significant increase in the number of children and young people placed in Private and Voluntary residential establishments, with current numbers in the region of 150 +, this figure represents a near trebling from 5 years ago. It is inevitable that as these children and young people reach 18 a significant number of them will become the responsibility of Adult Services, for which no additional budget provision exists.

2P Dementia Services – Residential day care services – £250,000

Responding to dementia and the subsequent care needs represents one of the biggest pressures on the Adult Care and the Council's budgets, and one that is likely to increase. Adult Care budgets are under pressure to respond to the demands for services from this category of service user, largely over 85 years old. Dementia costs the UK economy £17 billion a year, and in the next 30 years the number of people with dementia in the UK is expected to double to 1.4 million, with the costs trebling to over £50 billion a year.

The Council and the PCT undertook a Health Equity Audit of Dementia Services in the Borough in 2007 to lay the foundations for developing future health and social care dementia services in the borough. This demonstrated the need for improved community based interventions to prevent institutionalised, high cost admissions.

Resources are required to deal with current pressures in dementia services' that will prevent high cost alternate care services.

2009/10 BUDGET PRESSURES – ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

It is estimated that there are 1700 people with dementia in Barking and Dagenham, with **650 new cases per year**. At present a total of 462 people in the Borough are thought to be in receipt of social care services for dementia; 145 of who live in a care home. Based on national average costings, it is estimated that the annual costs of dementia care in Barking and Dagenham are £6.5 million for social services.

3P Summer Sorted - £30,000

Is the Borough's summer activities programme for children and young people. A range of activities and events are organised by both council departments and external organisations. Additional Council funding is required to support this ongoing annual programme.

Sub-total Adult & Community Services Department **£780,000**

CHILDREN'S SERVICES DEPARTMENT

4P Care Placements and Leaving Care - £3,500,000

There has been a shortfall in the budget for children's placements and leaving care for some time. The contributing factors to the growth in costs have included:

a. reducing numbers of in-house foster carers, due to poor practice and retirements;
b. growing numbers of private and voluntary placements (both for fostering and residential care);
c. increasing statutory responsibilities for young people leaving care between the ages of 18 and 21;
d. growing numbers of children continuing to attract (smaller) payments for Special Guardianship and Adoption Allowances, even while they cease to be "Looked After Children"; and
e. growth in the overall numbers of children in the borough.

Investment in preventative measures has begun in 2008/09 and the expected impact of this has been factored into the projections for 2009/10 onwards. There is a greater focus on:

1. increasing numbers of in-house carers, with a consequent reduction in the reliance on private and voluntary providers;

2. ensuring that Children in Need cases are effectively managed and backlogs are not built up;

3. initiatives to support individual families in crisis to avoid the need for the children to come into care In the first place.

2009/10 BUDGET PRESSURES – ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

Forecasts of likely numbers in each category of provision have been obtained through:

- a review of the care profile for every Looked After Child for the next three years;
- historic trends on monthly admissions, abated by the expected impact of investment in preventative measures;
- expected numbers of in-house foster carers;
- likely levels of activity for placements of children who are not technically looked after (ie Special Guardianship, Adoption Allowances, Leaving Care, Children with Disabilities etc).

The additional resources for this area are £3,000,000 for Children's care placements and £500,000 for invest to save measures to become part of the ongoing base budget to maintain the preventative investment to support reducing overall costs of care placements.

Sub-total Children's Services Department **£3,500,000**

CUSTOMER SERVICES DEPARTMENT

5P Replacement of plant and fleet used by Grounds Maintenance - £190,000

The most cost effective way of replacing fleet and plant vehicles that we own is to lease them rather than purchasing new ones.

29 of the owned items of plant and vehicles have or will have reached the end of their serviceable life between now and 2012. Of these 29 vehicles the majority are already past their serviceable lives but we have no option other than to use them on a daily basis. This is affecting both the operation and our ability to improve performance and provide a value for money service. This pressure bid is essential if we are to maintain the current level of service delivery and performance.

6P Replacement of fleet for delivery of refuse, street cleansing, environment health and highways - £130,000

The most cost effective way of replacing fleet vehicles that we own is to lease them rather than purchasing new ones.

2009/10 BUDGET PRESSURES – ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

13 of the vehicles used in the delivery of refuse, street cleansing , environmental health and highways are owned outright but have or will have reached the end of their serviceable lives between now and 2012.Of these 15 vehicles 11 are already past their serviceable lives but we have no option other than to use them on a daily basis. This is affecting both the operation and our ability to improve performance and provide a value for money service. This pressure bid is essential if we are to maintain the current level of service delivery throughout the Council and support services to modernise and improve.

7P Housing Advice Service – £300,000

As part of the review of the Private Sector Leasing Scheme there is a need for additional funding to support the hand back charges policy (£150k) and the net effect of payments for private sector leasing and the income attributable to this area (£150k).

8P Waste Management Strategy - £375,000

The implementation of a borough-wide wheelie bin scheme will require an increase in the net budget for this service to ensure it is fully funded. The annual costs relate to borrowing costs for equipment of £185k, staffing £320k and maintenance costs for vehicles and replacement bins of £50k. This additional cost of £555k is offset by savings in the non supply of black bags (£120k) and efficiencies within the Environmental & Enforcement Service (£60k) giving a net increase in resources of £375k.

Sub-total Customer Services Department **£995,000**

RESOURCES DEPARTMENT

9P Local Land Charges - £220,000

With the downturn in the housing market, the sale of properties has reduced considerably over the last year with the knock on impact of a fewer number of searches required. Coupled with the switch in searches to the lower fee level of personal searches this has meant that the income budget in this area needs to be amended accordingly to reflect the overall income generation now expected.

2009/10 BUDGET PRESSURES – ALL COUNCIL SERVICES (EXCLUDING SCHOOLS)

10P Rental Income - £220,000

Physical regeneration and alternative use of sites in the borough which were generating income for the council have resulted in rental income falling. The Creek Road property is now being used by the in house transportation service meaning that the income can not be generated. The former site occupied by the transportation unit has been sold as part of Disposal Programme resulting in a loss of rental income of £36,000 p.a.

The dust bin factory at the Lintons will be included in the redevelopment of the Lintons/William St Quarter and the rental income lost £22,000.

80 East Street is due to be demolished to facilitate a regeneration scheme - £79,000. Budgets for both the industrial properties and the miscellaneous properties have been inflated to over the maximum rent that can be achieved by £23,000 and £43,000 respectively due to differences between the inflation rate used to budget and changes in the rental market. Other, minor rental income variances total £17k.

Sub-total Resources Department **£440,000**

CORPORATE

11P Energy Costs - £800,000

The price of gas and electricity charged by suppliers has increased significantly in the last 2 years even after the use of consortium-led purchasing for our sites which are high energy users to minimize these rates. Automatic meter reading systems, green champions and voltage optimizers are some of the actions in place to reduce energy consumption but there remains significant pressure on energy budgets across the council covering our corporate accommodation, street lighting, leisure centres, etc.

Sub total Corporate **£800,000**

OVERALL PRESSURES TOTAL **£6,515,000**

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BUDGET OPTIONS FOR INVEST TO SAVE

RESOURCES DEPARTMENT

1IS Partnering arrangements - £400,000

An investment of £400,000 is required to carry out investigative work around partnering arrangements for back office, support services, primarily around ICT and transactional Human Resources and Finance services.

Support will also be needed to develop partnering arrangements both for the leisure service and the capital delivery service.

It will be vital for the Council to market test certain services to ensure that value for money is being realised. Options for alternative service delivery could generate significant savings both for the revenue budget and the capital programme, which enables resources to be re-allocated to priority areas.

There is a strong track record of successful partnering arrangements in local government particularly around back office and transactional functions. As an estimate, partnering arrangements can typically save between 10% and 15% of controllable budgets.

2IS Strategic Procurement - £100,000

Independent research has shown that properly applied, good procurement practice can deliver between 2% and 4% in savings. Current influencable spend within the Council is approximately £180M of which some 28% is on contract. Much of the remainder is ad-hoc spend with little or no competitive procurement practice employed. Additional procurement resources should help to lever savings from this spend.

Major areas of uncontrolled expenditure will be identified, for example the Council currently spends large sums on consultancy services and bought in training with little or no control as to how this is achieved, and work will be undertaken with service users to look at ways to aggregate demands and achieve the benefits of economies of scale to reduce expenditure and bring about efficiency of process.

There will also be involvement in the renewal and review of existing contracts to ensure that best procurement practice is employed in order to ensure compliant, VFM contracts are set in place.

Sub-Total Resources Department	**£500,000**
OVERALL INVEST TO SAVE BIDS TOTAL	**£500,000**

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INCREASED BUDGET OPTIONS FOR SCHOOLS

FUNDING DEVOLVED TO SCHOOLS WITHIN THE DEDICATED SCHOOLS GRANT (DSG)

1Sc Adjustment to remove one-off allocations funded from DSG brought forward from 2007/08 – (£745,000)

Schools Forum agreed to one-off Exceptional Circumstances allocations for 2008/09, which were funded from brought forward monies from the 2007/08 DSG. These were mainly for additional pupil numbers that will now be provided for in the pupil driven element of the Fair Funding formula, funded from the DSG for 2009/10, which will include those pupils counted in January 2009. The whole of the brought forward for 2007/08 was £1.119m and the balance of this will be adjusted from the retained budget in option 5Sc.

2Sc Schools Budget Minimum Funding Guarantee - £4,664,000

The Government's first three-year school funding settlement for 2008/11 includes a basic increase of 2.1% minimum funding guarantee per pupil to individual schools. The changes in pupil numbers between January 2008 and those used in the indicative DSG for 2009/10 in Barking and Dagenham rise by 1.09%. The Minimum Funding Guarantee allocation must be set aside for delegation to schools within the DSG total. This figure is liable to change because it is sensitive to changes in pupil numbers, both overall and between schools.

3Sc Early Years Private, Voluntary and Independent Providers - £123,000

It is expected that there will be some pressure on the budget for Early Years and there will be inflationary increases for payments to providers. The local authority is required to introduce more streamlined arrangements for all early years' settings, whether private, voluntary, independent or maintained. It is unlikely that the authority will be in a position to make significant changes to the arrangements for 2009/10, but a paper on the process to be adopted and the scope of any changes will be put forward to the next meeting of Schools Forum. Currently, there are more pupils in early years, certainly in the maintained sector, and, subject to the pupil count in January 2009, additional funding is expected to be required for additional children for 2009/10. At present, the estimated additional £123k consists of £23k for inflation and £100k for additional children.

4Sc Headroom delegated to schools to meet the Central Expenditure Limit and to cover additional inflationary pressures, 14-16 diplomas, personalisation and other priorities - £1,631,000

The Minimum Funding Guarantee would barely provide a standstill budget for individual schools and the workings of the funding formula would be substantially over-ridden by the absence of any headroom. As retained expenditure within the DSG is subject to the Central Expenditure Limit (CEL), the balance of any funding must be delegated to schools to comply with the School Funding Regulations. School priorities might include 14-16 diplomas or activities relating to personalisation.

INCREASED BUDGET OPTIONS FOR SCHOOLS

£163k of this headroom is calculated to be within the Learning and Skills Council allocation, which must be passed on to schools through the formula. The remaining £1.468m represents 1.2% more funding to schools than the 2.1% per pupil minimum funding guarantee.

Sub-Total Additional Funding to individual schools/nursery settings	**£5,673,000**

RETAINED FUNDING WITHIN THE DEDICATED SCHOOLS GRANT (DSG)

5Sc Adjustment to remove one-off allocations funded from DSG brought forward from 2007/08 – (£374,000)

As explained in Option 1Sc in the devolved section above, part of the published DSG for 2008/09 was funded from the £1.119m brought forward DSG from 2007/08. The retained budget needs to be adjusted to remove this one-off funding.

6Sc Inflationary increases on retained budgets - £343,000

This assumes an average 2.5% increase on retained budgets. Inflation in school budgets is covered by the Minimum Funding Guarantee.

7Sc Further pressures within the retained DSG up to the Central Expenditure Limit - £608,000

At this stage, it is expected that there will need to be funding set aside within the retained budget, up to the Central Expenditure Limit. This will include existing pressures on the Catering Budget and possible new pressures arising from in-year additional pupil number increases, which may have knock-on impacts on budgets for special needs, pupils out of school and early years.

Sub-Total Other Increased support for Schools	**£ 577,000**
OVERALL INCREASE FOR DEDICATED SCHOOLS GRANT	**£ 6,250,000**

CAPITAL PROGRAMME - NEW SCHEMES

ADULTS & COMMUNITY SERVICES DEPARTMENT

Marks Gate Community Centre and Library Redevelopment £1,600,000

This project will redevelop and enhance the community complex at Marks Gate. The scheme will improve the library, the learning spaces shared with the Adult College, the community facilities used by the community association and will provide specific space to be used by young people. This scheme is to be funded from corporate borrowing.

Teresa Greene Centre Backlog Maintenance £100,000

This scheme will replace elevations and refurbish the interior of the hall. It will replace the bolier and associated equipment which is beyond economic repair. This scheme is to be funded from corporate borrowing.

Rush Green Library – New Library £1,125,000

This project represents a joint development of a new public library for Rush Green on the Barking College site, which forms part of the overall redevelopment of this site. This scheme is to be funded from corporate borrowing.

Christmas Lighting £135,000

This scheme will provide Christmas lighting for Barking Town Centre, Dagenham Heathway, Green Lanes and Chadwell Heath. This scheme will be funded from corporate borrowing.

Dagenham and Redbridge Football Club £450,000

Consideration is being given to provide capital support to Dagenham and Redbridge Football Club in developing covered seating capacity at the ground required by the football league.

CHILDREN'S SERVICES DEPARTMENT

The Council has secured government funding (from the Department for Children, Schools and Families) for primary school expansion and re-development, both to improve the existing provision of primary schools, and also to increase the number of school places to accommodate the increases in school rolls across the borough. Capital investment projects are proposed as follows:

River Gate Primary School – new school £10,500,000

Cannington Road Primary – new school £11,500,000

Former UEL Primary School – new school £8,000,000

Lymington Primary School – new school £8,000,000

CAPITAL PROGRAMME - NEW SCHEMES

Beam Primary - expansion **£4,000,000**

Cambell Infant and Junior - expansion **£2,000,000**

St Joseph's Primary - expansion **£2,500,000**

St Peter's Primary - expansion **£1,500,000**

St George's Primary - refurbishment **£4,900,000**

Trinity School – conversion **£250,000**

Further new capital projects for Children's services are proposed as follows:

Major Repairs/Fair Funding **£150,000**

The Council has to fund part of capital works funded from schools budgets. This will need to be funded from corporate borrowing.

Performing Arts Centre **£750,000**

This represents additional funding for the performing arts centre. This will be funded from savings in the Children's services budget and will therefore not impact on the corporate budget position.

Trewern Centre **£500,000**

External funding has been secured for DDA works to the Trewern Centre.

Schools Modernisation Fund **£1,110,000**

External funding has been allocated from government in respect of the Schools Modernisation Fund.

Advanced Skills Centre **£12,000,000**

External funding has been secured to develop this new education and training facility aimed at young people between the ages of 14 and 19. It is proposed to locate this development on the London Road site in Barking.

Prospect Centre **£700,000**

This scheme relates to a social enterprise restaurant and training facility located as part of the Bathhouse development in Ripple Road Barking. The project will be delivered in partnership with an organisation called Training for Life, who operate similar ventures across 5 other locations in the UK. The scheme expects to deliver at least 40 apprenticeships for a minimum period of 10 years. It is proposed that this is funded externally through the LEGI grant.

CAPITAL PROGRAMME - NEW SCHEMES

CUSTOMER SERVICES DEPARTMENT

Containerisation of Waste **£2,110,000**

This proposed funding represents the borough wide roll out of the containerisation programme which has been piloted in five separate areas of the borough in 2008/09. This bid represents the financial impact of the programme which is subject to Executive approval for roll out borough wide. This scheme will be funded from departmental borrowing.

Land Quality Inspection Programme **£240,000**

This capital bid is in respect of costs incurred for the land inspection programme. Part of this is grant funded. This represents the Council's contribution to the programme and will be met from corporate borrowing.

Environmental Improvements Scheme **£1,845,000**

This is a borough wide programme to improve the visual and environmental amenity of several high rise estates. Initiatives include protective railings, landscaping, lighting and bin storage. This is funded from corporate borrowing.

Grounds Maintenance Fleet Replacement **£60,000**

This capital project is the purchase of small items of fleet and plant for grounds maintenance. An options appraisal has been carried out which has confirmed that purchase of the fleet and equipment is more cost effective than leasing. This scheme will be funded from corporate borrowing.

Road Safety and Traffic Management **£2,000,000**

This is a borough wide scheme to implement measures to control and manage traffic in accordance with the Council's network management duty, and also to implement safety measures on Council roads and footpaths. This scheme will be funded from departmental borrowing.

Street Light Replacement **£4,245,000**

This bid is to put in place a 4 year programme to replace street lighting installations. There are over 15,000 lighting units and over 1,000 lit signs across the borough, most of which are over 30 years old. This scheme will be funded from corporate borrowing.

Disabled Facilities Grants **£3,200,000**

The Council receives funding of £480,000 per annum from Government to fund an ongoing programme of grants for disabled facilities. The Council is required to fund a balance of £320,000 per annum to create a programme totalling £800,000 per annum over 4 years.

CAPITAL PROGRAMME - NEW SCHEMES

Controlled Parking Zones **£300,000**

This scheme is to fund a programme of ongoing controlled parking zones across the borough, 5 per annum over the next 5 years. This scheme will be funded from corporate borrowing.

RESOURCES DEPARTMENT

Refurbishment of the Mall Car Park **£100,000**

This scheme is for the refurbishment of the mall car park, including commissioning and installing artwork, improved lighting to the entrance and installation of CCTV. This scheme will be funded from corporate borrowing.

L8 Surveys and Remedial Work **£355,000**

This scheme is to ensure that the Council is fulfilling its responsibilities to undertake risk assessments and remedial works for legionella in Council buildings. This scheme will be funded from corporate borrowing.

Automatic Meter Reading **£230,000**

This scheme is to install automatic meter reading to every electricity, gas and water meter used by the authority. There are over 500 such installations, and this technology would help the Council plan to reduce its C02 emissions. This scheme will be funded partly from external funding and partly from corporate borrowing.

Energy Efficiency Measures in Buildings **£50,000**

This scheme is in respect of energy efficiency measures in buildings.

OVERALL CAPITAL SCHEMES **£86,505,000**

SCRUTINY MANAGEMENT BOARD

11 FEBRUARY 2009

REPORT OF THE CORPORATE DIRECTOR OF RESOURCES

TREASURY MANAGEMENT STRATEGY		**For Discussion**
The Treasury Management Strategy is approved on an annual basis and sets out the Council's investment strategy, its borrowing strategy, and borrowing limits, in accordance with relevant legislation. The 2009/10 strategy will be approved by Executive on 17th February 2009. Scrutiny Management Board are asked to consider the attached Executive report on the Council's Treasury Management Strategy and to forward any views for consideration on 17th February.		
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THE EXECUTIVE

17 FEBRUARY 2009

REPORT OF THE CORPORATE DIRECTOR OF RESOURCES

TREASURY MANAGEMENT STRATEGY	**For Decision**

Recommendations

The Executive is asked to consider and refer the following to the Assembly on 25 February 2009 for approval:

1. The Treasury Management Strategy Statement for 2009/10 (this document), and within this document the following:

2. The authorised borrowing limit of £200million for 2009/10, which will be the statutory limit determined under section 3(1) of the Local Government Act 2003;

3 The Borrowing Strategy for 2009/10;

4 The Minimum Revenue Policy Statement for 2009/10 which sets out the Council's policy on repayment of debt;

5 The Annual Investment Strategy for 2009/10, which outlines the investments that the Council may use for the prudent management of its investment balances. It also includes details of benchmarks set for external managers. The power is delegated to the Chief Financial Officer to change these benchmarks as required;

6. The Treasury Management Prudential Indicators for 2009/10 (Appendix A); and

7. Treasury Management Principles 2009/10 (Appendix D).

Reason

It is necessary for the members to approve this report due to the requirements of the Local Government Act 2003.

Summary

This report deals with the Treasury Management Annual Investment Strategy Statement, Prudential Indicators, Annual Investment Strategy and borrowing limits, in compliance under section 15 (1) (a) of the Local Government Act 2003 for consideration by the Executive.

The production and approval of a Treasury Management Annual Strategy Statement and Annual Investment Strategy are requirements of the Council under Section 15(1) of the Local Government Act 2003. It is also a requirement of the act to set an authorised borrowing limit for the forthcoming financial year.

The Local Government Act 2003 also requires the Council to have regard to the Prudential

Code, and to set prudential indicators which take into account the Council’s capital investment plans for the next 3 years.

Wards Affected
All wards.

Financial Implications

The aim of this treasury management strategy is to maximise the Council’s financial resources. Detailed financial considerations are considered throughout this document.

Legal Implications

It is a legal requirement for the Council to set an annual treasury management strategy, as set out in the Local Government Act 2003. The legal implications of the recommendations are contained in the report.

Risk Management

There are no further risks issues other than those already detailed in this report.

Social Inclusion and Diversity

As this report does not concern a new or revised policy, there are no specific adverse impacts insofar as this report is concerned.

Crime and Disorder

This report has given careful consideration to the implications of Section 17 of the Crime and Disorder Act 1978 and there are no specific implications insofar as this report is concerned.

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1. Introduction

1.1 The Local Government Act 2003 and supporting regulations requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

1.2 The Act and investment guidance issued subsequent to the Act requires local authorities to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby charges to revenue caused by borrowing and any increases in running costs are limited to a level which is affordable within the projected income of the Council for foreseeable future.

1.4 The 2009/10 strategy covers:

- The Treasury Management Policy;
- Treasury limits in force which will limit the treasury risk and activities of the council;
- Treasury Management Prudential Indicators;
- The current treasury position and borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- The debt rescheduling strategy;
- The MRP strategy;
- Security of Capital;
- The investment strategy;
- The Council's position on the Local Housing Company;
- End of year investment report;
- Use of External Fund Managers; and
- Treasury Management Principles.

2. Treasury Management Policy

2.1 The Council defines the policies and objectives of its treasury management activities as the management of the authority's cash flows, its banking, money and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance with those risks.

2.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will focus on their risk implications for the Council.

2.3 The Council is aware that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

3. Treasury Management Prudential Indicators and Treasury Limits

3.1. It is a statutory duty under section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The Act specifies that Councils must have regard to CIPFA's Prudential Code for Capital Investment. This code sets a range of indicators in respect of Treasury Management. A key indicator is the Authorised Borrowing Limit. In setting this limit, the Council must have regard to the Prudential Code by ensuring that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.
The code defines this limit as a limit gross of its total external debt, gross of investments, separately identifying borrowing from other long term liabilities.

3.2. It is proposed that the 'Authorised limit' increase to £200m for the years 2009/10 to 2011/12. The capital programme report that is also being considered on this agenda is proposing a total capital programme that will lead to a borrowing requirement of around £80m to £90m over the next 3 years.

3.3. As this is a legal limit, sufficient headroom has been provided to ensure that any major capital investment projects where financing has yet to be finalised, are not restricted by this statutory limit. This limit would cover any short term borrowing for cashflow purposes as well as long term borrowing for capital projects, finance leases, as well as any unforeseen incidences where expected capital receipts are not forthcoming due to unexpected economic factors.

3.4 The code also requires the local authority to set an operational limit for the 2009/10 financial year and the following two financial years for its total external debt. The operational limit is the level at which the Council would actually need to borrow in any one year to meet it's capital financing requirements for the capital programme.

3.5 A borrowing limit of £200m has been set per paragraph 3.1. This limit would apply to both short term and long term borrowing, and would be used to address cashflow issues in the short term, and capital financing issues in the longer term.

3.6 Full details of the Council's Treasury Indicators have been included in **Appendix A** to this document.

4. Current Portfolio Position

Investments and borrowing balances

4.1 The table below shows the Council's current treasury portfolio position at 31st December 2008:

	31 December 2008	Average rate of return/payment
	£ Million	%
Investments		
Council in House Team	66.7	5.87
Scottish Widows	22.9	4.59
Investec Asset Management	37.1	6.00
Royal Bank of Scotland (RBS)	15.0	8.00
TOTAL INVESTMENTS	**141.7**	**7.76**
Borrowing		
Fixed rate Funding PWLB	30.0	4.06
Market	20.0	3.98
TOTAL BORROWING	**50.0**	**4.02**

4.2 The sum invested broadly represents the reserves, provisions and balances that the Council holds together with the impact of any difference between the collection of income and expenditure (working capital).

4.3 Based on its cash flow forecasts, the Council anticipates its fund balances by 31st March 2009 to be approximately £125 million**.** This is based upon the 2008/09 capital programme expenditure profile and both agreed and forecast use of reserves and other balances.

4.4 Benchmarks are set to ensure that the council maximises its return on investments, provide sufficient challenge to fund managers, and ensure that the treasury management strategy is in line with the budget strategy. It also takes into account the effect of future projections for interest rates in addition to current and predicted future economic conditions.

5. Prospects for Interest Rates

5.1. The level of, and fluctuations in, interest rates, are a key consideration for any treasury management strategy. The Council invests it's portfolio throughout the year, and the level of interest rates determines the interest receipts that are generated to support ongoing revenue expenditure.

5.2. To arrive at an expectation of interest rates for 2009/10, and beyond, a number of judgements and assumptions are made; in addition this involves a high degree of uncertainty.

5.3. The Council has appointed Sector Treasury Services as treasury adviser to the Council. Part of the service provided assists the Council in formulating a view on interest rates. **Appendix B** draws together a number of current City forecasts for short term or variable and longer fixed interest rates.

5.4 It is expected that Bank Rates in 2009/10 will take a downward trend from the current levels of 1.5% with expectations tending towards a further 1.0% cut in quarter 1 and quarter 2 of 2009 before the Bank Rate begin to rise in quarter 2 2010.

5.5. This is a significant reduction in the prevailing interest rate compared to 2008/09. The Council has ensured that sufficient provision has been made in the Medium Term Financial Strategy to cover this reduction in income for 2009/10.

6. Borrowing Strategy and Borrowing Requirement

6.1. The decision to borrow is a treasury management decision and is taken by the Chief Financial Officer under delegated powers of the Council's constitution. The key objective of the Council's borrowing strategy is to secure long term funding for capital projects at borrowing rates that are as low as possible.

6.2 *Borrowing Objectives*
The Council will look to reducing the revenue cost of borrowing to its minimum by appraising new sources of finance and loan instruments in order to achieve minimum risk while having regard to the maturity profile of loans. The authority will consider borrowing fixed rate funds when interest rates are low and variable rates when borrowing or investment cash rates are high and expected to go lower
When the market becomes favourable to borrow the Council may have to fund known capital needs ahead of that need in order to take advantage of lower fixed term rates and market opportunities.

6.3 *Borrowing Options*
The option to borrow is always a financing option. The decision to borrow is being taken in consultation with our expert treasury advisors. A mix between Public Works Loans Board (PWLB) and money market loans is recommended by our treasury management advisers.
With current investment rates at an all time low, in contrast to current borrowing rates, the Council can also consider the use of its internal investments as an alternative to borrowing, as returns on investments will be so low in 2009/10.

6.4. *Portfolio Mix*
The Council's will continue to seek the advise of its treasury management advisers on the best portfolio mix, currently the portfolio mix recommended is a 50/50 split in the debt portfolio in the long term. It is advised that at any one point in time the Council should have a portfolio where no more than 10% of its debt matures in any one year. As the Council has only recently started to borrow, this objective will only be achieved as a portfolio of debt has been built up (i.e. the Council has more than 10 loans on it's books). The Chief Financial Officer monitors the portfolio mix on a periodical basis.

6.5. *Risk Evaluation*
The Council will continue to borrow in tranches as the opportunities arise in the market in order to reduce financing risk.

6.6 *Portfolio Life*
In any debt portfolio there will be a range of maturities out as far as 70 years. As part of the proactive management of the debt portfolio these loans will be considered for debt restructuring through monitoring and where a financial benefit can be made, debt will be restructured within acceptable risk parameters in the treasury management strategy. The debt maturity profile will not stay static because when opportunities arise they are taken in order to reduce the council's underlying financing costs which will impact on the revenue budget.

6.7 The table below indicates the estimated range of total borrowing requirement (cumulative) from 2009/10 to 2010/11:

Borrowing Requirement	2008/09 £m Estimate	2009/10 £m Estimate	2010/11 £m Estimate	2011/12 £m Estimate
CUMULATIVE TOTAL	50	85-90	110-115	120-125

6.8 The borrowing rate forecast for 2009/10 from Sector is as follows:

- The 50 year PWLB rate is expected to fluctuate by 0.05% between quarters in 2009/10, Q1 3.85%, Q2 3.80%, Q3 3.80% and Q4 3.85%;
- Similarly, the 25 year PWLB rate is expected to fall progressively from 4.00% to 3.95% in Q4;
- The 10 year PWLB rate is expected to fall from 3.10% in Q1 2009 to 2.55% in Q3, followed by a gradual rise;
- The 5 year PWLB rate is expected to fall from 2.50% in Q1 2009 to reach 2.15% in Q4 2009 and to then gradually rise; and
- The forecast indicates that the borrowing strategy for 2009/10 should be set to take shorter term PWLB loans under 10 years. Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate if they become available.

6.9 In summary, considering the factors set above, the recommended borrowing strategy:

- That cash balances, not identified for longer term investments, may be used to finance capital expenditure on a temporary basis as current interest rates are such that returns on cash balances are so low;
- Other forms of financing capital should be evaluated when considering long term borrowing decisions, principally PWLB and market loans;
- The maximum repayment spread for borrowing remains at 70 years; and
- No more than 10% of borrowing should mature in one year, however this position will only be reached as a portfolio of debt is built up.

7.0 Debt Rescheduling Strategy

7.1 £10m of the Council’s current debt will mature in 2009/10. The key decision in debt restructuring will be the ability to make a saving. The decision to reschedule will be taken by the Chief Financial Officer under delegated powers of the Council’s constitution and in consultation with the council treasury management advisers.

7.2 Due to the short term borrowing rates being expected to be considerably cheaper than long term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short term debt. There are also opportunities to to use cash balances to finance capital expenditure in the short term, given the current interest rate environment.

8. Minimum Revenue Provision (MRP) Strategy

8.1 The Government issued new guidance in February 2008 which looks at asset life as a prudent period for which to write MRP over and accordingly. It is the Council’s policy to charge MRP at 4% of the opening capital financing requirement.

9. Annual Investment Strategy and Investment Policies

9.1 The Council will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and the Chartered Institute of Public Finance Accountants (CIPFA)'s Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:
(a) the security of capital;
(b) the liquidity of its investments; and
(c) the minimisation of risk exposure.

9.2 Investment instruments identified for use in the financial year are listed in **Appendix C** to this report. Under the requirements of the Investment Guidance issued by the Department of Communities, investments need to be classified into specified and Non-Specified. The Annual Investment Strategy states which investments the Council may use during the financial year. It is a requirement to report these investments to the Executive for approval. It is the delegated responsibility of the Chief Financial Officer to determine the exact instrument to use within these classifications. Appendix C also sets out:

- The procedures for determining the use of each asset class (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments"; and

- The maximum periods for which funds may be prudently committed in each asset class.

9.3 For 2009/10, the strategy has been amended so that the Council can invest in products which most importantly minimise risk and obtain favourable returns. The Council will maintain a mixed portfolio of investments in 2009/10. Where the maximum returns can be achieved and on the advice of our advisers, we may seek to invest in structured investment products and money market funds. In addition our external fund managers may seek to invest in pooled money market funds with permitted weighted average maturity of less than 1 year so can be classified as specified investments. Gilts investments will continue to remain on a segregated basis.

9.4 The principles of the proposed strategy for 2009/10 are as follows:

- The weighting of the funds between the different fund managers which may occur as a result of requesting for money back will be kept under review in order to ensure that an adequate spread of risk is maintained within the portfolio;

- To minimise interest rate risk and maintain balances between short and long term; and

- The credit rating of counterparties will be kept under continuous review. Due to the current economic crisis and issues within the banking sector, all investments made in house will be held in UK institutions. The Council's external fund managers will operate within the credit ratings and parameters set in this strategy, but will have the flexibility to invest in institutions outside of the UK.

9.5 *Treasury Advisor's Outlook*
The Council's treasury management advisors are forecasting that the bank rate will continue the downward trend from 1.5% January 2009, with rates expected to fall to 0.5%. It is then expected to stabilise at 0.5% until the starting to rise gradually with the first increase in Q2 2010 and then back to 4.0% during Q1 2012.
The Council will therefore avoid locking into longer term deals a greater part of its core balances while investment rates are down at historically low levels.

9.6 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest and where a borrowing option is cheaper seek to consider such options.

9.7 *Icelandic Bank Investments*
The Council has no frozen investments in Icelandic banks

9.8 Each year, Council Officers consult with its treasury management advisor to determine appropriate benchmarks for investment returns. External fund managers have been informed of these proposed benchmarks and have set their investment strategies accordingly. They are as follows:

Fund Manager	2009/10 Benchmark	Reason
• Investec Asset Management • Scottish Widows (SWIP)	3.0% (or 3 month LIBID, whichever is higher) 3.0%, (or 3 month LIBID, whichever is higher)	• Bank Rate now 1.5% as at January 2009 • A greater part of the Council's portfolio was locked away for longer periods in 2008/09 while investment rates were high • Bank Rate Forecast to remain within the range of 1.0% and 0.5% • A greater part of the Council's portfolio was locked away for longer periods in 2008/09 while investment rates were high • Maximising of council's return on investments at minimal risk • Maximisation of the Council's returns in order to meet budget pressures

The power to change benchmarks as above is delegated to the Chief Financial Officer.

9.9 The 2009/10 benchmarks for Investec and SWIP have reduced to the higher of 3.0% and 3 month LIBID.

9.10 The table below shows the projected level of investments and borrowing from 2009/10 to 2012;

	31 March 2008 Actual £m	31 March 2009 Estimate £m	31 March 2010 Estimate £m	31 March 2011 Estimate £m	31 March 2012 Estimate £m
Investments					
Total Investments at 31 March	104	125	102	103	105
External Debt					
Borrowing	0	50	86	110	122

9.11 The Council may permit its external fund managers to use instruments such as gilts, bonds, pooled funds, callable investments and other longer-dated instruments. Limits will have to be established in the use of such instruments to ensure that the Council can have access to its investments. These Treasury Management limits can be set as either a £ amount or percentage.

9.12 *Investments defined as capital expenditure*
The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

9.13 A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

9.14 *Provisions for Credit-related losses*
If any of the Council's investments appeared at risk of loss due to default, (i.e. this a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount. Where there is a loss of the principal amount borrowed due to the collapse of the institution, the Council will seek legal advise and consult with its advisers.

9.15 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices.

9.16 The Council's external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers also stipulate guidelines on duration and other limits in order to contain and control risk.

9.17 *Investment Objectives*
All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to

achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. We have set challenging targets for 2009/10, and the risk of balancing returns with prudence will need to be managed.

9.18 The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

10. Security of Capital: the use of Credit Ratings

10.1 For the Council the duty to protect capital is paramount, improved performance is only achieved by taking effective decisions regarding the timing and duration of the investment rather than making 'higher-risk' investments to generate higher returns. The Council relies on credit ratings published by Fitch and Moody to establish the credit quality of counterparties (issuers and issues) and investment schemes.

10.2 Monitoring of credit ratings:

- All credit ratings will be monitored monthly. The Council has access to Fitch and Moody's credit ratings and is alerted to changes through its use of the Sector website and in some cases the Council may use the Standards and Poor credit ratings;

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty /investment scheme as a new investment will be withdrawn immediately;

- If counterparty is down graded but still meets the Council's minimum criteria, it would be watched closely and any further downgrading would result in the Council removing it from its lending list. It should however be noted that where the Council enters in to a fixed term deposit, the borrower has no obligation to entertain any request for premature redemption, the Council may ask for the deposit to be broken, however this is not market practice and the institution is under no obligation to comply.

- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the Chief Financial Officer for approval;

- The Council will establish with its fund managers their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity; and

- The Council will continue its approach of investing no more than 20% of its aggregate funds to any particular counterparty or £15m which ever is higher.

- As a result of recent activity in the UK banking sector regarding mergers, the Council will also set a "group limit" of investing no more than 30% of aggregate funds in any particular group.

10.3 *Use of Nationalised banks*

Nationalised banks in the UK generally have credit ratings which do not conform to the credit criteria commonly used by local authorities to identify banks which are of credit worthiness.
In particular as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly they have assigned an F rating which means that at a historical point in time this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself. Deposits made with them are effectively made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

10.4 *UK banking system support package*
The Council is aware that as at the time of setting its treasury management strategy that the UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500 billion support package. However where the Council will lend to these banks it would not only rely on the implicit guarantee given by the government but in addition consider the credit ratings of the individual bank and UK government sovereign rating.

10.5 *Use of foreign banks*
The Council's in-house team will not invest in foreign banks, however the Council's fund managers may invest in foreign banks which in their judgement have sound standing, meet the Council's minimum credit rating criteria and whose sovereign have a AAA long-term credit rating. In addition Fund managers will ensure that the geographical spread of funds is considered and avoid high concentration of funds in one country. In addition the Council considers that fund managers should not invest in countries where the rating is denoted as 'local currency rating' which does not take account of the possibility of foreign exchange controls limiting transfer into foreign currency.

10.6 *Use of other Local Authorities*
Where the investment is a straightforward cash loan the Local Government Act 2003 s13 suggest that the credit risk attached to English and Welsh local authorities is an acceptable one. The Council will limit its lending to local authorities in England and Wales.

10.7 *Use of Multilateral Development Banks*
S15 of the Local Government Act 2003 SI 2004 no. 534 amended provides regulations to clarify that investments in multilateral development banks were not to be treated as being capital expenditure. Should the Council invest in such institutions then only such institutions with AAA credit rating and government backing would be invested in consultation with the Council's treasury management adviser and the Chief Financial Officer.

11. Use of External Fund Managers

11.1 It is the Council's policy to use external fund mangers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep the Council's investment strategy. The level of external balances is under constant review as the level of capital receipts diminishes. The performance of each manager is challenged quarterly by the Chief Financial Officer and the Council's treasury advisers.

11.2 The Council currently uses two fund managers, Scottish Widows (SWIP) and Investec Asset Management. £60m of the Council's funds are currently managed on a discretionary basis by Investec and Scottish Widows.
In selecting the institutions to include in their counterparty listing it is the external manager's policy to maintain a list of counterparties and assets based on the Council's set minimum criteria. This list is approved by their specialist credit team who independently research all potential counterparties before inclusion and regularly monitor and update to ensure that any change in credit worthiness and valuation is captured.

11.3 Investec provides the Council with a periodic outlook on fund returns. For 2009/10, the worst case is 2.0%, and best case is 2.25%. These scenarios are based on the recent trend of the MPC rate cuts with at least rate cuts to 1.0%.

11.4 Investec will be employing a strategy which will enable them buy shorter dated Certificate of deposits because in the current economic climate the upside for capital gains is limited.
Investec will anticipate the use of supranational bonds in addition to gilts in other to increase returns of the portfolio. However they expect to see higher yield before establishing a position.
In choosing its counterparty, in addition to the Council's minimum credit rating, Investec employs further credit rating criteria which considers the size of the institution and activity in Sterling markets

11.5 Scottish Widows provide the Council with a forecast of their returns on the Council's investments based on the use of STL and GLF funds as the main part of the Council's portfolio. In the an environment where interest rates have moved to extremely low levels, possibly to zero, SWIP will be permitted to use UCIT funds as part of the existing portfolio asset allocation. The absolute return bond fund and the credit advantage fund may also be used in the course of the year if advantageous.

12. End of year Investment Report

12.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Consultation:

Joe Chesterton –Divisional Director of Corporate Finance
John Hooton – Group Manager Accounting & Technical Finance
Miriam Adams – Treasury & Pension Manager
External – Sector Treasury Services

Background Papers:

Local Government Act 2003
CIPFA – The Prudential Code for Capital Finance in Local Authorities
CIPFA – Treasury Management in the Public Services
Approved capital programme 2008/09 to 2010/11
Monthly Treasury Management Report
Medium Term Financial Strategy 2008/09 to 2010/11
Sector – Guide to Establishing Credit Policies April 2008

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Appendix A

The Prudential Code for Capital Investment in Local Authorities

1. Introduction.

1.1. The Prudential Code for Capital Investment was introduced in April 2004 as part of the Local Government Act 2003. The Prudential Code for Capital Investment allows each council freedom over its level of capital expenditure so long as it is prudent, affordable and sustainable. In other to show it is working within these limits the Council must approve, revise and monitor a range of indicators.

1.2. To enable councils to establish whether their proposed borrowing is affordable and prudent the *Chartered Institute of Public Finance and Accountancy* (CIPFA) has produced *The Prudential Code for Capital Finance in Local Authorities*. This identifies a range of indicators which must be considered by the Council when it makes its decisions about its future capital programme and sets its budget.

1.3. The Prudential Code prescribes a number of **Treasury Indicators**. This appendix deals with the following indicators:

- PI (prudential indicator) 10 – Authorised Borrowing Limit
- PI 11 – Operational Borrowing Boundary
- PI 13 – Adoption of the CIPFA Treasury Management Code
- PI 14 – Fixed Interest Exposure
- PI 15 – Variable Interest Exposure
- PI 16 – Maturity Structure of Borrowing
- PI 17 – Investments over 364 days

2. External Debt

2.1 In the medium term local authorities only have the power to borrow for capital purposes. The current position is that the Council will embark in borrowing in 2009/10.

2.2 External borrowing and investment arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In accordance with best professional practice the Council does not associate borrowing with particular items or types of expenditure. This means that in day to day cash management no distinction can be drawn between revenue or capital funds nor, similarly, between Housing Revenue Account and the General Fund. It should be noted that the code requires that off-balance sheet private finance initiative (PFI) schemes will be treated as outside the prudential indicator for debt, by absorbing revenue resources, they will have to be taken into account in determining the proposed level of capital investment is affordable.

2.3 **The authorised limit –** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by members. It reflects the statutory limit determined under section 3 (1) of the Local Government Act 2003.

2.4 **The operational limit –** This represents a limit beyond which external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitor indicator to ensure the authorised limit is not breached. The limit is usually lower than the authorised limit.

2.5 At any point in time there are a number of cash flows in and out of the Council's bank account which are caused by the differential timing of payments and receipts from the Council. It is possible that an unanticipated cash movement could lead to a requirement for temporary borrowing. Such decisions will need to take into account the affordability of borrowing, but it is important that the operational boundary leave sufficient "headroom" for these eventualities.

2.6 The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. However the Council will only do so if it expected long term borrowing rates to rise significantly before 2009/10 – 2011/12.

2.7 For this reason the Executive is recommended to approve the authorised limits and operational boundary limit set out in Table 1.

Table 1: Operational Limit and Authorised Borrowing Limits (Prudential Indicators 10 and 11)

	2008/09 £'million	2009/10 £'million	2010/11 £'million	2011/12 £'million
Borrowing	50.0	90	115	125
Operational Boundary on Borrowing	50.0	90	115	120
Authorised Limit (affordable limit)	150.0	200	200	200

Adoption of the CIPFA Treasury Management Code (Prudential Indicator 13)

3.2 The authority has an integrated treasury management strategy and has adopted the *CIPFA Code of Practice for Treasury Management in the Public Sector.* Treasury management creates the link between an authority's CFR and the structure of its external debt. Like the operational boundary, these are of direct relevance to day to financial management.

3.3 The new *Prudential Code for Capital Finance in Local Authorities* supplements this by requiring council's to calculate specific indicators to demonstrate the prudence of its treasury management policies. These are detailed below:

<u>Fixed Interest Exposure (Prudential Indicator 14)</u>

3.4

	2008/09 Actual	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Fixed Rate	50	90	115	125

This indicator will be reviewed in detail when the Council considers the option to reschedule its debt maturing in 2009/10.

<u>Variable Interest Exposure (Prudential Indicator 15)</u>

3.5 The Council will not be exposed to variable interest rate risk since all its borrowing has been at fixed rates. Should the Council borrow at variable rate, a 10% of portfolio upper limit will apply.

<u>Maturity Structure of Borrowing (Prudential Indicator 16)</u>

3.6 This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period.

	Actual position	Upper Limit	Lower Limit
Under 12 months	0%	10%	0%
12 Months and within 24 months	0%	20%	0%
24 months and within 5 years	40%	80%	0%
5 years and within 10 years	20%	80%	0%
10 years and above	40%	100%	0%

<u>Investments over 364 days (Prudential Indicator 17)</u>

3.7 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. The risk inherent in the maturity structure of the Council's investments is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

<u>Table 2: Principle Sums Invested</u>

	2008/09 £'million Estimate	2009/10 £'million Estimate	20010/11 £'million Estimate
Total Investments (average)	125	102	103
Maximum invested under 1 year	125	102	103
Maximum invested over 1 year	50	50	50
Maximum invested over 2 years	20	20	20
Maximum invested over 3 years	10	10	10

3.8 These limits are derived from current projections on interest receipts and spending on the capital programme. They also include a level of contingency to take into account an element for new capital bids, and potential shortfalls in receipts from the disposals programme.

4. <u>Summary Assessment</u>

4.1 The Prudential Indicators confirm that the proposed treasury management strategy, in conjunction with the Council's budget strategy and capital programme, is in compliance with the key themes of the Prudential Code, those being prudence, affordability and sustainability.

4.2 The Council needs to confirm it is happy with the arrangements, whereby the Chief Financial Officer has authority, in exceptional circumstances, to borrow up to £200 million. It is anticipated that in practice that such borrowing is unlikely to be necessary.

4.3 The treasury management indicators will be regularly monitored throughout 2009/10.

INTEREST RATE FORECASTS

Sector Treasury Services compile forecasts on interest rates that are key considerations for the Council's Treasury Management Strategy. Appendix B draws together a number of current city forecasts for short term bank rate and longer term fixed interest rates. The table below give the Sector central view

Sector View interest rate forecast:
Sector's view is that the bank rate will fall from current levels because of the intensifying global recession. Interest rates are expected to fall to 0.5% in Q1 2009; it is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012. There is a downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

	Q/E1 2009 %	Q/E2 2009 %	Q/E3 2009 %	Q/E4 2009 %	Q/E1 2010 %	Q/E2 2010 %	Q/E3 2010 %	Q/E4 2010 %	Q/E1 2011 %	Q/E2 2011 %	Q/E3 2011 %	Q/E4 2011 %	Q/E1 2012 %
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.75	2.50	3.25	3.75	4.00
5 yr PWLB	2.50	2.25	2.15	2.15	2.15	2.45	2.80	3.15	3.65	3.95	4.29	4.45	4.601
10yr PWLB	3.10	2.75	2.55	2.55	2.55	2.85	3.25	3.65	4.15	4.40	4.70	4.75	4.85
25 yr PWLB	4.00	3.95	3.95	3.95	4.00	4.15	4.35	4.45	4.60	4.85	4.95	5.00	5.05
50 yr PWLB	3.85	3.80	3.80	3.80	3.85	3.90	4.00	4.25	4.40	4.70	4.80	4.95	5.00

Economic background

The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. This section summarises some of the key developments.

UK

- GDP: growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt
- Growth slowed across the economy and unemployment rose throughout the year with forecasts of continued increase through 2010.
- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.
- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer interbank lending.
- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This

was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.

- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.
- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high. It was the strength of the banking crisis, pre-empted by the collapse of Lehman in New York that eventually drove the MPC to cut interest rates
- The LIBOR spread over Bank Rate has also been a feature, and a concern, of 2008/9. Because of the credit fears and reluctance of lenders to place cash for long periods.

International

- Early in 2008, the US economy was being badly affected by the housing market slump.
- The second quarter of 2008/9 was torn between inflation worries on the one hand, with oil rising towards $150 per barrel, and the deteriorating economic outlook on the other.
- In the second and third quarters of the year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime fiasco and the impact it was having on institutions that had invested in these issues.
- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.
- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.
- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.
- The financial crisis had therefore precipitated an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16 December to a band of 0.0% to 0.25% in an attempt to stave off the oncoming recession. Inflation was yesterday’s problem.

<u>Appendix C</u>

Specified Investments:

The classification of investments as specified and non-specified is constantly reviewed. The Chief Financial Officer ensures that investment products are fully understood and the risks and compliance with CIPFA Code of Practice on Treasury Management is full appraised and understood.

The choice of minimum credit rating criteria has been set in consultation with the Council’s treasury management advisers.

All investments which fall under the classification of specified investments will be sterling denominated and have maturities up to maximum of 364 days, meeting the minimum ‘high’ rating criteria at the time of investment.

Organisation	**Minimum Credit Criteria**			**Max. PERIOD**	**Use**
	Short-term	Long-term	Individual	Support Rating	
Term deposits – banks and building societies	F1 or equivalent	A	C	Under 3 months 3	In-house and Fund Managers
	F1 or equivalent	AA-	B	Over 3 months but under 365 days 2	In-house and Fund Managers
Certificates of deposits issued by banks and building societies	F1 or equivalent	A	C	2	Fund Managers
Structured deposits	F1 or equivalent	A	C	2	In-house and Fund Managers
Term deposits – UK government	Govt Backed-not credit rated				In-house
Term deposits – other Local Authorities	High Security – although not credit rated				In-house
Term deposits – UK Nationalised banks and building societies	F1 Government Backed				In-house and Fund Managers

Debt Management Agency Deposit Facility	Govt Backed Agency -not credit rated	In-house and Fund Managers
Money Market Funds	AAA	In- house and Fund Managers
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	long-term AA	Fund Managers
Treasury Bills	Govt Backed-Not Credit Rated	Fund Managers
Short term funds	AAA	Fund Managers
Pooled funds	AAA	Fund Managers

Non-Specified Investments:
Where investments are held for longer than 365 days they are classified as Non-specified Investments. Strong credit quality is a major factor in the choice of lender.

A maximum of 75% will be held in aggregate in non-specified investments

Organisation	Minimum Credit Criteria			Use	Max. maturity period
	Short-term	Long-term	Individual	Support Rating	**Max 5 of total council investments**
Term deposits – UK government (with maturities in excess of 1 year)	Govt Backed-Not Credit Rated			In-house	5 Years
					25%
Term deposits – other LAs (with maturities in excess of 1 year)	High Security – although not Credit rated			In-house	5 Years
					25%
Term deposits – banks and building societies (with maturities in excess of 1 year)	F1+	AA or equivalent	B	In-house	5 Years
				2	25%
Certificates of deposits issued by banks and building societies	F1,or equivalent			Fund managers	5 Years
				2	75%

<table>
<tr><td rowspan="2">UK Government Gilts with maturities in excess of 1 year</td><td colspan="3" rowspan="2">AAA</td><td rowspan="2">Fund Managers</td><td>10 Years</td></tr>
<tr><td>75%</td></tr>
<tr><td rowspan="2">Structured deposits with variable rates and variable maturities – callable and flappable deposits, range trades and snowballs</td><td rowspan="2">F1+</td><td rowspan="2">AA or equivalent</td><td rowspan="2">B</td><td>In-house</td><td>5 Years</td></tr>
<tr><td>2</td><td>25%</td></tr>
<tr><td rowspan="2">Pooled Funds various</td><td rowspan="2">F1+</td><td rowspan="2">AA or equivalent</td><td rowspan="2">B</td><td>Fund Managers</td><td>5 Years</td></tr>
<tr><td>2</td><td>75%</td></tr>
<tr><td rowspan="2">Bonds issued by multilateral development banks</td><td colspan="2" rowspan="2">AAA</td><td rowspan="2">Government guarantee</td><td rowspan="2">In-house on a ‘buy-and-hold’ basis. Also for use by fund managers</td><td>10 Years</td></tr>
<tr><td>75%</td></tr>
<tr><td rowspan="2">Bonds issued by a financial institution which is guaranteed by the UK government</td><td colspan="2" rowspan="2">AAA</td><td colspan="2" rowspan="2">In-house on a ‘buy-and-hold’ basis. Also for use by fund managers</td><td>10 Years</td></tr>
<tr><td>75%</td></tr>
<tr><td rowspan="2">Sovereign bond issues (i.e. other than the UK govt)</td><td colspan="2" rowspan="2">AAA</td><td colspan="2" rowspan="2">Fund Managers</td><td>10 Years</td></tr>
<tr><td>75%</td></tr>
</table>

Alternative Credit ratings available from Moody’s & Standard & poor
Eg Ftich F1- Moody’s P1 , Fitch A – Moody’s Aa3

Key
Short Term Ratings – F1 – Indicates the strongest capacity for timely repayment
Long Term Ratings – A – Capacity for payment of commitments considered strong
AA – Very strong capacity for payment of commitments
AAA –Exceptionally strong capacity for payment of commitments

Individual Rating B – Strong organisation , no major concerns .
C – Adequate organisation , some concerns regarding its profitability and Balance sheet.
Support Rating 2 – High probability of external support
3 – Moderate probability of support

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Appendix D

2009/10 TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management polices and objectives and how it will manage and control those activities.

TMP 1 Treasury risk management

TMP 2 Best value and performance measurement

TMP 3 Decision–making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Staff training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

1. TMP1 RISK MANAGEMENT

1.1. General Statement

It is the responsibility of the Divisional Director Corporate Finance and relevant delegated officers, to design, implement and monitor all arrangements for the identification, management and control of treasury management risk and report at least annually on the adequacy/suitability thereof. The Divisional Director Corporate Finance will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect. This will be done in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

1.2. Liquidity

The Council will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft 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 service objectives.

1.3. Interest rates

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements

The Council will achieve the above objectives by the prudent use of its approved financing and investment instruments, methods and techniques primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation. These policies will be established each year through the approval by the Council of the indicators required under *The Prudential Code for Capital Finance in Local Authorities*.

It is not Council's policy not to use financial derivatives and other instruments for interest rate management.

1.4. Exchange rates

The nature of the Council's activities means that it is unlikely that it will be exposed to exchange rate risks. It could, however, arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.5. Inflation

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its overall exposure to inflation. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations. During periods of unexpected, potentially advantageous changes in the level or structure of inflation. The key consideration is that investments reap the highest real rate of return while taking into consideration risk, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.6. Credit and Counter-party Policies

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter-party lists and limits reflect a prudent attitude towards organizations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4. It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. This is set out in Schedule TMP1

1.7. Refinancing

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the money so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.
It will actively manage its relationships with its counter-parties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

The affordability of the revenue consequences of capital financing will be assessed through compliance *The Prudential Code for Capital Finance in Local Authorities*.

1.8. Legal and Regulatory

This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP 1 (credit and counterparty risk management), it will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council. The Council will report such changes in its annual treasury management strategy.

1.9. Fraud, Error and Corruption, and Contingency Management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

1.10. Market Value of Investments

This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations.

2. TMP 2 VALUE FOR MONEY AND PERFORMANCE MEASUREMENTS

2.1. This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

2.3. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

2.3. The Council's policy is to appoint full-time professional cash/external investment fund managers to manage surplus funds beyond the core funds that it manages itself. It will comply with the Local Organisations (Contracting out of Investment Functions) Order 1996 [SI 1996 No 1883]. The Code of Practice places an obligation on the organisation to monitor the performance of the fund managers. The Council has appointed Sector Treasury Services Limited to assist in this respect.

3. TMP 3 DECISION-MAKING AND ANALYSIS

3.1. The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The factors that should be taken in to account are set in Schedule TMP 5.

4. TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. The Council will undertake its treasury management activities within the limits and parameters defined in TMP1 Risk Management.

4.2. From April 2004 the choice of instruments has been determined the Annual Investment Strategy that complies with guidance issued by the Secretary of State.

5. TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1. The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

5.2. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies the Divisional Director Corporate Finance and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury manager and relevant treasury management staff. This is achieved by the *Statement of Duties/Responsibilities for Each Treasury Post* set out in Schedule TMP 5

5.3. If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasury Manager will ensure that the reasons are properly reported in accordance with TMP6 and the implications properly considered and evaluated.

5.4. The Treasury Manager will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

5.5. The Treasury Manager will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

5.6. The Treasury Manager will fulfil all delegated responsibilities in accordance with the organisation's policy and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

5.7. It is also the responsibility of the Treasury Manager to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

6. TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1. The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

6.2. As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.
- An annual investment strategy setting out the procedures for determining the use of each class of investment and appropriate limits to be applied to each class.

6.3. The content of these reports is set out in Schedule TMP6

7. TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1. The Divisional Director Corporate Finance will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Best Value and Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Treasury Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

7.2. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

7.3. The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8. TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Treasury Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 liquidity risk management.

9. TMP 9 MONEY LAUNDERING

9.1. The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staffs involved in this are properly trained. The present arrangements are detailed in Schedule TMP 9

10. TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1. This Council recognises the importance of ensuring that all staff involved in the treasury management functions are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

Statement of Professional Practice

10.2. The Divisional Director Corporate Finance has a professional obligation to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staffs are appropriately trained.

10.2. Other staff involved in treasury management activities who are members of various professional accounting bodies must also comply with the CIPFA Statement of Professional Practice.

11. TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1. The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the Council's procurement and legislative requirements will always be observed.

12. TMP 12 CORPORATE GOVERNANCE

12.1. The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

12.2. This organisation has adopted and has implemented the key recommendations of the *Code of Practice on Corporate Governance*. This, together with the other arrangements which will be detailed in the schedule to the TMP's, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICE SCHEDULES

SCHEDULE TMP 1

Criteria to Be Used For Creating/ Managing Approved Counterparty Lists/Limits

The Divisional Director Corporate Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.

The Divisional Director Corporate Finance is responsible for applying the stated credit rating criteria for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

The following organizations are to be approved organizations for investment purposes:-

- UK Local Authorities
- UK Clearing banks and Building Societies with a FITCH Short Term Credit Rating of F1 or above
- Any foreign bank on the Bank of England's Banking Act 1987: Authorised Institutions List with a FITCH Short Term Credit Rating of F1. The Council's internal treasury team does not invest in foreign banks.
- Any other body approved in The Local Authorities (Capital Finance) (Approved Instruments) Regulations 1990

In practice, the in-house team will only invest in UK institutions. External fund manager can invest in foreign banks provided they operate within the criteria set in the Council's treasury management strategy.

The maximum period and level for investments will set by the Divisional Director Corporate Finance.

SCHEDULE TMP3

Issues to be addressed in decision making.

In respect of every decision made the organisation will:

- Above all be clear about the nature and extent of the risks to which the organisation may become exposed
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- Be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping
- Ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded

- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the organisation will*:*

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

In respect of investment decisions, the organisation will:

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

SCHEDULE TMP5

STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

<u>The Divisional Director Corporate Finance and S151 Officer</u>

The responsibilities of this post will be to: -

- In setting the prudential indicators, the Divisional Director Corporate Finance will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council 's financial plans are affordable, prudent and sustainable in the long term
- Establish a measurement and reporting process that highlights significant variations from expectations
- Recommend clauses, treasury management policy / practices for approval, reviewing the same regularly , and monitoring compliance
- Submit regular treasury management policy reports to the Executive of the Council as appropriate.
- Submit budgets and budget variations
- Receive and review management information reports
- Review the performance of the treasury management function and promote best value reviews
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit, and liaising with external audit

- Ensuring that the system is specified and implemented
- Recommend the appointment of external service providers.

The Divisional Director Corporate Finance has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The Divisional Director Corporate Finance may delegate his power to borrow and invest to members of his staff. The Group Manager Accounting and Technical, Treasury & Pensions Manager, Treasury Accountant or staff authorised to act as temporary cover for leave and sickness. All transactions must be authorised by at least two of the named officers above.

The Divisional Director Corporate Finance and the Divisional Director Legal and Democratic Services (as the Monitoring Officer) will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Divisional Director Corporate Finance to be satisfied, by reference to the Divisional Director Legal and Democratic Services and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

It is also the responsibility of the Divisional Director Corporate Finance to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

<u>Treasury Manager</u>

The responsibilities of this post will be: -

- Adherence to agreed policies and limits
- Managing the overall treasury management function
- Supervising treasury management staff
- Ensuring appropriate segregation of duties
- Monitoring performance on a day-to-day basis
- Submitting management information reports to the Divisional Director Corporate Finance
- Maintaining relationships with third parties and external service providers and reviewing their performance
- Identifying and recommending opportunities for improved practices.

<u>The Divisional Director Legal and Democratic Services (as Monitoring Officer)</u>

The responsibilities of this post will be: -

- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- Giving advice to the Divisional Director Corporate Finance when advice is sought.

SCHEDULE TMP6

Information Requirements

Annual Treasury Management Strategy Statement

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Executive for approval before the commencement of each financial year.

The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates.

The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

The Treasury Management Strategy Statement will include specific reference to the need to comply with the balanced budget requirement per the Local Government Finance Act 1992 Section 33. S32 also requires a local authority to calculate its budget requirement for each financial year including the revenue costs which flow from capital financing decisions. Considerations of these costs will be informed by the indicators that have to be calculated according the CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the organisation
- measurements of performance
- report on compliance with CIPFA Code recommendations

SCHEDULE TMP 9

Procedures for Establishing Identity / Authenticity of Lenders

The Council does not accept loans from individuals. Decision to borrow will be done in consultation with the Council's treasury management advisers. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).