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South Bucks
District Council

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DEMOCRATIC AND ELECTORAL SERVICES

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Date:	24 February 2012	Direct Line:	01895 837225

Dear Councillor

RESOURCES POLICY ADVISORY GROUP

The Resources Policy Advisory Group will be held as follows:

DATE: **MONDAY, 5TH MARCH, 2012**

TIME: **6.00 PM**

VENUE: **ROOM 5, CAPSWOOD, OXFORD ROAD, DENHAM**

Yours faithfully

Jim Burness

Director of Resources

Note: This meeting is not open to the press or public.

To: Members of the Resources Policy Advisory Group

Mr Smith (Chairman)
Mr Chhokar
Mr Harding
Mr Jones
Mr Anthony
Mr Hardy
Mr Hollis
Mr Wilson

Declarations of Interest

Any Member attending the meeting is reminded of the requirement to declare if he/she has a personal interest in any item of business, as defined in the Code of Conduct. If that interest is a prejudicial interest as defined in the Code the Member should also withdraw from the meeting.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

   To receive the Part I minutes of a meeting of the Policy Advisory Group held on 12 January 2012. **(Pages 1 - 4)**

A. REPORTS LIKELY TO LEAD TO PORTFOLIO HOLDER DECISION / RECOMMENDATION

3. **Bad Debt Write-Offs**

   To consider report of Director of Resources. **(Pages 5 - 6)**

4. **Finance Procurements**

   To consider report of the Director of Resources. **(Pages 7 - 10)**

5. **Land West of Denham Road, Iver Heath**

   To consider report of the Director of Services. **(Pages 11 - 16)**

B. REPORTS FOR INFORMATION / DISCUSSION

6. **Investment Performance Quarter Ending 31 December 2011**

   To consider report of the Director of Resources. **(Pages 17 - 24)**

8. **Any other business**

   To consider any other business the Chairman decides is urgent.

9. **Exempt Information**

   To note the following item contains exempt information, which is not for Publication to the press or public

10. **Minutes**

(Pages 25 - 28)

To receive the Part II minutes of the meetings of Resources Policy Advisory Group held on:

- 12 January 2012-
- 3 February 2012

11. **Land at Broadway Car Park**

To consider report of the Director of Services. **(Pages 29 - 36)**

12. **Bad Debt Write-Offs**

To consider report of Director of Resources. **(Pages 37 - 40)**

The next meeting of the PAG is due to take place on Thursday, 14 June 2012

RESOURCES POLICY ADVISORY GROUP

Meeting - 12 January 2012

Present:	Mr Wilson (Chairman) Mr Anthony, Mr Chhokar, Mr Harding, Mr Hollis, Mr S W Jones and Mr Smith
Also Present:	Mr Busby and Mr Bagge
Apologies for absence:	Mr Hardy

34. **MINUTES**

The Part I minutes of the meeting of the Policy Advisory Group (PAG) held on 31 October 2012 were received.

35. **PORTFOLIO BUDGETS 2012/13**

The PAG considered a report seeking approval to the draft revenue budget and fees and charges schedule for 2012/13 for the Resources Portfolio. The report outlined the context of the overall financial position facing the Council and confirmed that no bids for growth had been put forward.

Having considered the comments of the PAG, the Portfolio Holder has approved for submission to the Cabinet:

1) The 2012/13 revenue budget of £4.110m; and
2) The 2012/13 fees and charges.

36. **TREASURY MANAGEMENT**

The Council's Treasury Management Strategy is a key element to the Financial Strategy and the PAG considered a report attaching the Treasury Management Strategy 2012/13 together with the following appendices:

- Appendix A - Revised Policy Statements and CIPFA Code
- Appendix B - The Annual Investment Strategy
- Appendix C - Interest Rate Forecasts
- Appendix D - Economic Background
- Appendix E - Example of Corporate Bond Accounting Treatment
- Appendix F - The Prudential Indicators
- Appendix G - Minimum Revenue Provision

The report, after explaining the various legal requirements under the Local Government Act 2003 and the Local Government Finance Act 1992, reminded the PAG that the investment interest target for 2011/12 had been set at £900,000 which was likely to be under - achieved by £17,000 by the end of the year.

The report went on to set a target for investment returns for 2012/13 of £800,000 as summarised in a table and discussed in more detail in the Treasury Management Strategy 2012/13. The PAG noted that this target was based upon a level of capital balances for 2011/12 of £20m and that the Council will continue to remain debt-free. The Strategy assumed that the current challenging economic situation would continue through 2012/13.

During the discussion of the Strategy, and in particular the revised counterparty matrix as set out in the table in paragraph 4.6, the PAG, after noting that £8 million would become available during

2012/13 for reinvestment, supported the proposal to seek a greater diversification of the investment portfolio by increasing the number of counter parties used and also considering investing in corporate bonds, always having regard to the need to balance risk against the rate of return.

The PAG expressed no appetite to return to the situation of the authority using fund managers as this was not felt to cost effective.

After considering the comments of the PAG the Portfolio Holder has **AGREED** to **RECOMMEND** the Cabinet:

1. To adopt the Treasury Management Strategy 2012/13 including:

   (i) Approving, subject to the proposal above concerning diversification, the revised counterparty matrix as set out in paragraph 4.6 of the Strategy;

   (ii) Approving the following appendices:

   - Appendix B -The Annual Investment Strategy
   - Appendix F- The Prudential Indicators, including the borrowing limits
   - Appendix G - Minimum Revenue Provision to be used in 2012/13.

37. **FEES AND CHARGES**

The fees and charges policy sets out the current charging practices and the PAG received a report setting out a proposal to revise the policy by adding:

- A new section 5 to make explicit the requirement occasionally to benchmark our fees and charges; and
- A new concession group for full time students

Having considered the comments of the PAG, which supported the proposals, the Portfolio Holder has **AGREED** to **RECOMMEND** the Cabinet and the Council to adopt the revised Fees and Charges Policy.

38. **REVISED ASSET MANAGEMENT PLAN**

The Council's Asset Management Plan was last reviewed three years ago and the PAG received a report attaching a revised plan incorporating a number of proposed changes.

After considering the comments of the PAG, which supported the proposed changes, the Portfolio Holder has **AGREED** to **RECOMMEND** the Cabinet and the Council to adopt the revised Asset Management Plan.

39. **INTERNAL AUDIT CONTRACT**

Following the decision of the Policy Advisory Group on 25 January 2011 (subsequently endorsed by the Cabinet on 8 February 2011) to carry out a tender exercise for the award of a new internal audit contract from 1 April 2012 for a period of five years, the PAG considered a report setting out the methodology used to obtain and evaluate the tender together with the results of the tender exercise.

The report explained that tenders had been received from the following five organisations:

- Haines Watts
- RSM Tenon
- TIAA
- Oxford County Council
- Deloitte

A report in Part II of the agenda provided further details of the tenders received including an analysis of their strengths and weaknesses.

After considering the comments of the PAG and noting the comments of the Audit Committee from its meeting on 15 December 2011 the Portfolio Holder has **AGREED** that the contract for the provision of the Council's Internal Audit Service be awarded to TIAA.

40. **EXEMPT INFORMATION**

Members noted that the following items contained exempt information which was not available to the press and public.

Part II minutes of the meeting of the Policy Advisory Group held on 31 October 2011.

(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

The minutes of the meeting of the PAG held on 31 October 2011 were received.

Sale of Land at Oak End Drive, Iver
(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

The PAG considered a report setting out the bids that had been received for this piece of land and agreed to accept one of the bids.

Sale of Land at Farnham Common Car Park
(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

The PAG received a report providing an update on the sale of this piece of land. Following consideration of a further report from the Council's Valuers Kempton Carr Croft circulated at the meeting and setting out the four tenders that had been received, the Portfolio Holder agreed, with the support of the PAG, that the matter be deferred pending a further report providing a detailed evaluation of each of the tenders received..

Manor House Access Arrangements
(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

The PAG considered a report providing an update on the negotiations that had taken place on proposals to allow access for the church across Stoke Poges Memorial Gardens. The Portfolio Holder agreed to recommend the Cabinet and the Council to agree a number of the proposals.

Internal Audit Contract
(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

In connection with Minute 40, the PAG received further detailed information on the tenders received

Claim for Asbestosis
(Schedule 12A part 1 para (3) – because of information relating to the financial or business affairs of any particular person).

The PAG noted a report giving details of a claim against the Council by a former employee for asbestosis.

The meeting terminated at 7.35 pm

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SUBJECT:	Bad Debt Write-Offs
REPORT OF:	Officer Management Team - Director of Resources Prepared by N Berry - Revenues and Benefits Client Manager

1. **Purpose of Report**

1.1 To seek authorisation for the write-off of a number of debts over £2,500 in accordance with the Council's Bad Debt Write-off Policy approved by Members in June 2011.

2. **Links to Council Policy Objectives**

2.1 Delivery of cost effective services, which meet customers and community needs

2.2 Working with partners to improve the provision of high quality services

3. **Background**

3.1 Members will be aware that South Bucks District Council has a proud record of very high levels of collection of all monies owed and for Council Tax and Business Rates collections have been in the top quartile of local authorities for a number of consecutive years.

3.2 When setting the Council Tax each year, estimates of final collection rates are used in the calculation, as even with the best recovery procedures and promptest action there are always a number of debts, which for one reason or another are uncollectable. For 2012/13 the collection rate is assumed to be 98.5%.

4. **Debts for which authorisation is sought to write-off**

4.1 Listed In part 2 of this agenda are a number of Council Tax debts, each over £2,500, which require member authorisation to be written off. The total amounts to £99,859.14 and relates to 24 cases.

4.2 A number of the debts are aggregated amounts equating to more than one years charge as often it can take a while to exhaust recovery options prior to confirming that the debtor has absconded.

4.3 Should further information come to light in any of the cases which could result in recovery of monies owed, the debt will be reinstated and the necessary recovery action taken.

6. **Resource Implications**

6.1 Council Tax – In line with good practice the Authority has already, in previous years, set aside funds to cover the write off of these Council Tax debts by establishing a provision for bad debts. This provision currently stands at approx £1.2 million. These write offs will therefore be funded from this provision and will not have any direct impact on the 2011/2012 budget.

In 2011/2012 the amount which the Council is due to collect in respect of Council Tax totals approximately £45.5 million. It is estimated that the ultimate collection will be 98.5% of the charge. Non collection will also arise from reasons other than taxpayers absconding such as the bankruptcy or death of a taxpayer. There are also occasionally cases where the debtor is traced abroad where the debt is unenforceable. A number of smaller debts are also written off each year as they are uneconomic to pursue.

The write-offs listed in Part 2 of this report cover various periods mainly within the last 5 years during which the total amount to be collected was in excess of £200 million. These write-offs therefore represent a very small percentage of the total due to the Council.

7. Summary

7.1 Authorisation is requested to write-off the debts listed in Part 2 of this agenda

Officer Contact:	Neil Berry 01895 837240 neil.berry@southbucks.gov.uk
Background Papers:	**Bad Debt Write-off Policy**

SUBJECT:	Finance Procurements
REPORT OF:	Officer Management Team - Director of Resources Prepared by - Head of Finance & IT

1. Purpose of Report

1.1 To seek Members' approval to a programme of financial procurements.

2. Links to Objectives

2.1 Having cost effective procurement arrangements in place relates to providing value for money services.

3. Discussion

3.1 Chiltern District Council (CDC) and South Bucks District Council (SBDC) have agreed to work together in order to improve value for money and deliver better services. As such it is appropriate to consider whether it is possible to align contracts across the two authorities in order to let joint contracts. Joint contracts will potentially offer better value for money as they will benefit from economies of scale and will only require a single joint procurement process.

3.2 The joint working agreement envisages a gradual evolvement of joint working over time. However due to the long term nature of contracts, and the fact that a number of Finance contracts are due for renewal in the next 12 months it is useful to consider the programme of financial procurements now.

Payroll

3.3 Both CDC and SBDC have a contract with Aylesbury Vale District Council to provide their payroll service. The CDC contract ends on 31 March 2015. The SBDC contract ends on 31 March 2013.

3.4 The following table sets out the various options and the advantages and disadvantages of each.

	Option	Advantages	Disadvantages
A	SBDC could let a contract now (eg for 6 years) which includes the option for CDC to join in once the current CDC contract expires.	Longer term contract.	Potentially the two Authorities would have different payroll providers in 2013/14 and 2014/15, whereas they currently have the same provider.
B	SBDC could let a 2 year payroll contract until 31 March 2015. A joint contract would then be let at that point in time.	Formal market testing is carried out.	Given the low value of the contract, and the cost of change it is unlikely that many suppliers would be able to offer competitive bids.
C	SBDC to extend their current contract with AVDC by two years to 31 March 2015. A joint contract would then be let at that point in time.	Simplest solution with lowest cost. Avoids disruption.	Market testing is delayed until 2015.

3.5 It should also be noted that the current AVDC service is flexible and responsive and provides a good service, which is likely to be particularly useful over the coming years as officers will be working across the two authorities.

3.6 It is proposed that option C is taken ie SBDC to extend their current contract with AVDC by two years to 31 March 2015, and a joint payroll contract would then be let at that point in time.

Insurance

3.7 CDC have a contract with Jardine Lloyd Thompson for insurance which ends on 1 Dec 2012. SBDC have a contract with Zurich which ends on 31 March 2015, with an option to extend by a further 2 years.

3.8 The following table sets out the various options and the advantages and disadvantages of each.

	Option	Advantages	Disadvantages
A	CDC could let a contract now (eg for 6 years) which includes the option for SBDC to join in once the current SBDC contract expires.	Longer term contract.	Given the nature of insurance cover (it is primarily based on the assets that are required to be insured) it is unlikely that contractors would be able to give firm prices for the future SBDC element of the contract.
B	CDC let a 2 year 3 month contract until 31 March 2015, with an option to extend by a further 2 years. A joint contract would then be let at that point in time.	Simplest solution with lowest cost. Formal market testing is carried out.	Shorter contract period.

3.9 The is no third option for CDC to extend their current contract as the contact value is above the EU procurement threshold and must therefore be subject to a competitive tender process.

3.10 It is proposed that option B is taken (subject to approval by CDC) ie CDC to let a two year contract to 31 March 2015, and a joint insurance contract would then be let at that point in time.

Banking

3.11 CDC has a contract with Co-Op for banking which ends on 31 March 2016. SBDC have a contract with Natwest which ends on 31 March 2013.

3.12 The following table sets out the various options and the advantages and disadvantages of each.

	Option	Advantages	Disadvantages
A	SBDC could let a contract now (eg for 6 years) which includes the option for CDC to join in once the current CDC contract expires.	Longer term contract.	CDC would still wish to market test the arrangement in 2016 which would involve time and cost.

	Option	Advantages	Disadvantages
B	SBDC could let a 3 year banking contract until 31 March 2016. A joint contract would then be let at that point in time.	Formal market testing is carried out. Contract is under EU threshold so tender can more easily be tailored to meet SBDC needs.	Shorter contract period, and unlikely to generate commercial competition. (For instance when CDC let their contract in 2011 there was only one bidder).
C	SBDC to extend their current contract with Natwest by three years to 31 March 2016. A joint contract would then be let at that point in time.	Simplest solution with lowest cost.	Market testing is delayed until 2016.

3.13 It is proposed that either option B or C is taken dependant on whether members believe that potential cost savings during the 3 year contract would outweigh the disruption caused by having to change contractor.

Finance System

3.14 CDC uses the SUN finance system and are looking to replace / upgrade this as it is increasingly becoming less sustainable. SBDC uses the Integra Finance system and have no plans to replace this at present - as it has recently been upgraded and meets current needs.

3.15 Aylesbury Vale District Council are also looking to replace their current finance system and have started a procurement process for a ‘cloud’ based solution – ie a shared solution that is fully hosted by the provider and which is paid for based on a cost per use basis.

3.16 Both CDC and SBDC have therefore provisionally been named on the AVDC tender documents, in order to ensure that both authorities have the option to switch to this solution if there is a business case to do so in the future, and if AVDC’s experience shows this to be a viable and secure approach to delivering financial systems.

3.17 Furthermore it is proposed that (subject to approval by CDC) CDC approach Integra to obtain indicative prices for CDC to move to the using Integra, in order to ascertain whether this would be a more cost effective solution to adopt.

3.18 Using this approach a final decision on the way forward with regard to the Finance systems would be taken later once potential costs are know. The AVDC procurement is anticipated to reach the final award stage in June of this year, with implementation within AVDC by end December 2012.

4. Resource, Risk and Other Implications

4.1 Generally the longer the contract period the lower the price, as it gives suppliers time to recover any upfront investment costs. However this needs to be compared to the potential savings that could be obtained from having joint contracts in the future.

4.2 The current annual SBDC costs for the services referred to are:

- Payroll £ 13,000
- Insurance £107,000
- Banking £ 20,000
- Financial System Licenses £ 13,000
- Financial System Support £ 20,000.

4.3 EU procurement rules require contracts to be competitively tendered if their estimated value is over £173,000. Below this contract level the procurement can be more tailored by the authority provided it complies with its contract standing orders. This also applies to contract extensions eg authorities are unable to enter into a contract of £100,000 and then extend at an additional cost of £90,000.

4.4 Section 14 (2) of the Contracts Procedure Rules permit extensions to existing contracts subject to approval by both the Committee responsible and Cabinet.

5. Recommendations

5.1 The Resources Portfolio Holder is asked to endorse the programme of financial procurements as detailed in this report, and recommend to Cabinet that appropriate contract extensions be agreed.

Officer Contact:	Rodney Fincham 01895 837268 Email: Rodney.Fincham@southbucks.gov.uk
Background Papers:	

Part I

SUBJECT:	**Land to the west of Denham Road Iver Heath South Bucks**
REPORT OF:	**Officer Management Team - Director of Services** **Prepared by - - Head of Environment**

1. Purpose of Report

1.1 The purpose of this report is to discuss the area of land adjacent to Denham Road, A 412, Iver Heath and the M25.

2. Links to Council Policy Objectives

2.1 This report relates to the Council's Asset Management Plan and the Council's management principle to use resources prudently.

3. Background

3.1 Attached at Appendix A is a site plan showing the area of land owned by South Bucks District Council edged in black. It is immediately adjacent to the land subject to the recent project pinewood proposals. The land was purchased by the Council in April 1996 which granted a simultaneous lease to Iver Parish Council. The area of land is 16.19ha (40 acres).

3.2 The lease was renewed with Iver Parish Council on the 20 December 2004 for a period of 7 years and therefore the lease expired on the 19 December 2011 – the parish are holding over under the terms of the lease. The Parish do not have an automatic right to renew their lease.

3.3 The lease was granted at a peppercorn rent and the Parish Council is responsible for maintenance of the land and to ensure that the land is-used for the enjoyment of the public. Typically the area is currently used by dog walkers, with a number of public footpaths crossing the land.

4 Discussion

4.1 <u>Option 1</u>
The parish council would like to renew the lease on the same terms as the previous tenancy for a further 7 years, to include full maintenance responsibilities and associated liabilities.

4.2 The land is green belt and therefore any redevelopment potential would be highly constrained and limited to uses appropriate for a greenbelt setting. The granting of a lease to the Parish Council would secure continued public access to the land

4.3 <u>Option 2</u>
The other uses that the land could possibly be put to in the short term would be for grazing of cattle or the keeping of horses. However it should be noted that neither would be ideal given the fact that vehicular access to the land is difficult and Public footpaths also cross the land and would require careful consideration

Cattle grazing land could create an income of approximately £4,000 per annum although a water supply and fencing, would need to be provided and there would be likely costs associated with finding a tenant. Planning permission would not be required. There would be an estimated capital cost incurred of £10,000 with the loss of revenue of £300 per annum at 3% to set up and the income up to £4000 per annum. Payback of capital achieved in 2.5 years.

An alternative would be to form horse paddocks which will require water supply and fencing; if four paddocks of 2 acre were formed the approximate income of up to £1,000 per paddock may be achieved. Planning permission would be required for the keeping of horses on the land, if food was predominantly brought onto the site rather than the horses just grazing on the grass. There would be a estimated capital cost incurred of £10,000 with the loss of revenue of £300 per annum at 3% to set up and the income up to £4000 per annum. Payback of capital achieved in 2.5 years.

Members may consider that the current arrangement with the Parish Council in the short term who manage the land for public amenity may be a better solution than trying to let the land as grazing/paddocks.

It should be noted that the District Council will incur ongoing landlord costs as not all areas of the land would fall under the maintenance responsibilities of the tenants i.e. woodland etc.

4.4 Option 3

Members may like to consider granting a new lease with a break clause at every 2nd year. This would allow officers to review this matter periodically, consider and report to Members whether there may be other emerging potential uses that maybe beneficial and could possibly attract funding and produce a meaningful income. Some form of sporting use for example maybe a future possibility and could meet a local need.

Iver Parish Council have concerns as it would make it very difficult for the Parish to have a long-term management plan for the public amenity and would be detrimental to seeking funds as long-term ownership is usually required as part of the conditions from fund providers.

5. Resource and Wider Policy Implications

5.1 The table below summarising the financial effects of the 3 options.

Option	Estimated Income	Estimated Capital Cost Incurred	Loss of Revenue	SBDC Estimated maintenance Cost	Financial Risk
1. Renew Lease	Peppercorn	Nil	Nil	Nil	Low –
2. Form Grazing or Horse Paddocks	£4,000	£10,000	£300pa @ 3%	£5,000 > £10,000	High – SBDC incur maintenance cost of land which would not be included in a tenancy ie woodland etc. Public Access limited.

3. Renew Lease with break clause	Peppercorn	Nil	Nil	Nil	High – Parish Council do not agree to break clause

5.2 Option 1 and 2 there would be no resource implications other than officers time to prepare the new lease. Option 2 would incur Officers time to manage the land and the council will incur ongoing maintenance costs.

5.3 Should it be decided to pursue an option which required public access to or use of the land to be limited, it should be noted that there may be a risk of receiving local objections.

6. Summary

6.1 Members of the PAG are therefore are asked to note the contents of this report and to advise the Portfolio Holder as to which of the options detailed in the report should be pursued

This matter requires Cabinet / Council agreement.

Officer Contact:	**Chris Marchant (chris.marchant@southbucks.gov.uk) 01895 837360** **John Harwood (john.harwood@southbucks.gov.uk) 01895 837265**
Background Papers:	**Services working file**

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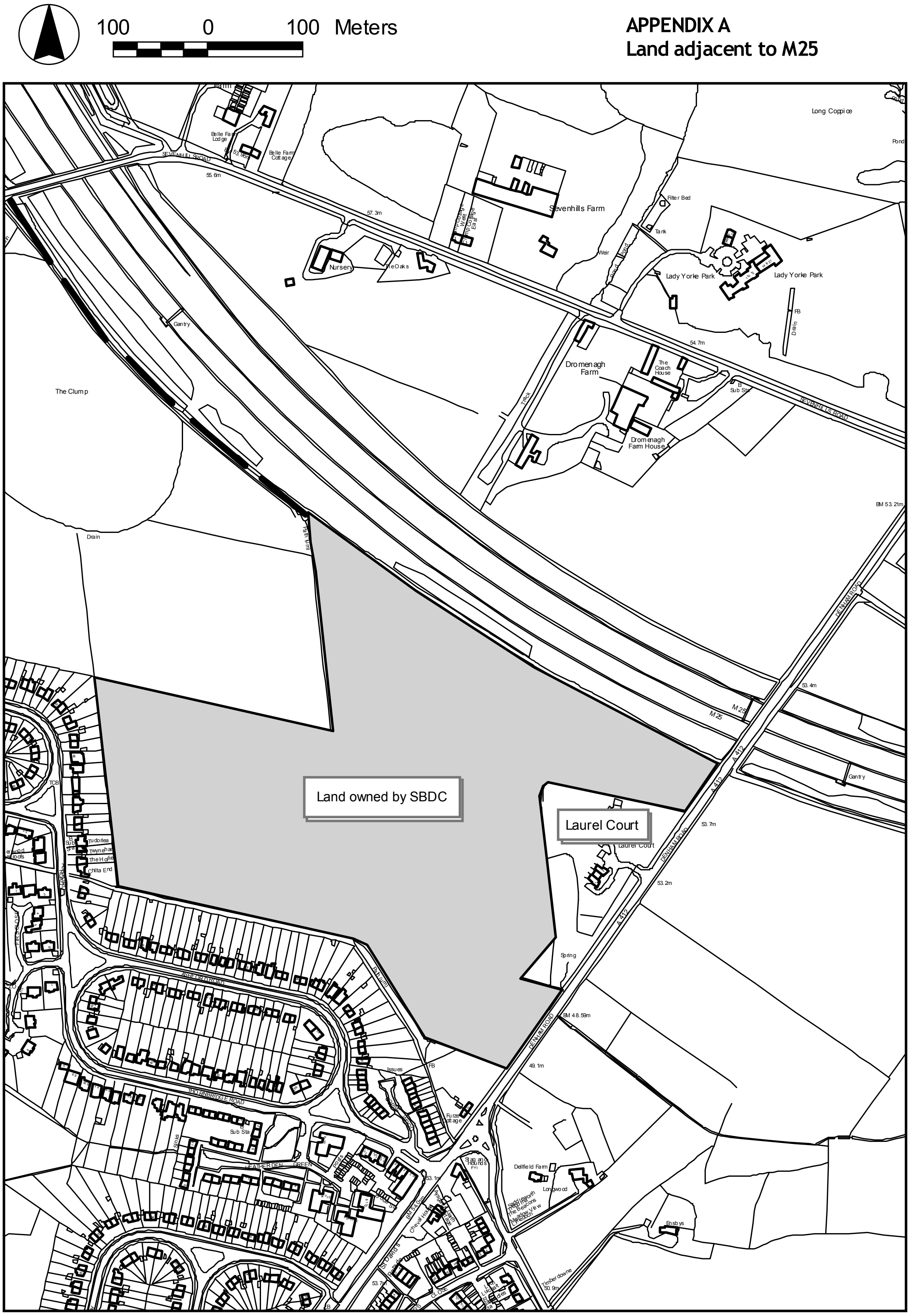
APPENDIX A
Land adjacent to M25



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SUBJECT:	**Investment Performance Quarter Ending 31st December 2011**
REPORT OF:	**Officer Management Team - Director of Resources** **Prepared by – Principal Accountant**

1. Purpose of Report

1.1 To inform Members of the investment returns for the quarter ending 31st December 2011.

2. Links to Council Policies & Plans

2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1 The Council's Treasury Management Strategy 2011/12 details the following sources for generating investment income for the year:

(i) Set an estimated return on investment income for the year of £0.9 million.

(ii) Set the sources for generating income for the year as follows:

	£'000
Fixed & Callable Deposits	646
Short Term Cash Flow and Other Investments	179
Stoke Poges Memorial Gardens Fund	75
Total	900

3.2 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.

3.3 The Council has adopted the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.

3.4 The code recommends that reports on investment performance are made on a quarterly basis including a Mid-year Review Report. This report represents the third of these reports for 2011/12.

4. Investment Performance – Quarter to 31 December 2011.

4.1 **<u>In House Investments</u>** – Officers invest cash flow surpluses with approved counter parties. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. At the last meeting of this PAG Members approved a new matrix for investments as part of the Treasury Management Strategy 2012/13 as follows.

	Fitch Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	A+ or better	£7 million	
	A or better Banks with high UK Gov Support	£7 million	
	A or A-	£2 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA- or better	£2 million	Investment decision will be based on balancing yield against duration

4.2 A summary of the Council's holdings of fixed deposits at 31st December 2011 is shown below.

UK Institutions	Fitch Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/11	08/02/16	(1)
Fixed Deposit		2,000,000	2.50%	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	A+					
Fixed Deposit		1,000,000	2.50%	03/10/11	03/10/12	
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Fixed Deposit		1,000,000	2.50%	02/11/11	02/11/12	
Fixed Deposit		2,000,000	2.50%	16/11/11	16/11/12	
Total CA		7,000,000				
Lloyds Bank	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	11/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Bank of Scotland						
Fixed Deposit		3,000,000	2.10%	15/07/11	16/07/12	
Fixed Deposit		1,000,000	2.10%	04/10/11	04/10/12	
Fixed Deposit		1,000,000	2.05%	14/02/11	14/02/12	
Total Lloyds Group		7,000,000				
Barclays	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	
Total Barclays		1,000,000				
Co-operative Bank	A-					

UK Institutions	Fitch Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Fixed Deposit		1,000,000	2.50%	14/02/11	14/02/12	
Total Co-op Bank		1,000,000				
Total Deposits		23,000,000				

(1) RBS have the option to switch to 3 month LIBOR[1] plus 30 basis points in years 3,4 & 5.

(2) RBS have the option to switch to 3 month LIBOR 2 & 3.

4.2 In addition the Council held the following investments of short term (less than 1 year) cash at the end of the quarter:

Counterparty	Fitch Credit Rating	Amount £	Interest Rate	Invested	Matures	Notes
Barclays Bank	A	1,000,000	1.415%	15/04/11	15/02/12	
Clydesdale	A-	1,000,000	1.25%	15/04/11	19/01/12	
Bank of Scotland	A	500,000	1.35%	22/09/11	03/01/12	95 Day Notice
Nat West Bank	A	2,655,000	Base + 34 Basis Points			Instant Access
Nat West Bank	A	4,000,000	Base + 60 Basis Points			30 Day Notice Account
Total		9,155,000				

4.3 **Stoke Poges Memorial Gardens Fund:** The interest return from the fund is no longer credited directly to the Stoke Poges Memorial Gardens cost centre but has been incorporated with all of the Council's other investment returns.

4.4 The fund is managed on a passive basis by King & Shaxson .Due to the current cost of buying a new bond it is the current policy to reinvest any maturities within the Councils cash investment. There are no maturities from the Stoke Poges Memorial Gardens Fund due in 2011/12. The value of the fund at 31st December was £1,550,174.63

5. Economic Background

5.1 Economic background

- Indicators suggest that the economy is at a higher risk of recession.
- Weak demand on the high street has forced retailers to offer generous discounts
- The labour market deteriorated, but at a slower pace than in previous months.
- Public borrowing has fallen in line with the fiscal plans, but forecasts for future deficits have been revised up.
- Inflation is beginning to fall

[1] LIBOR – London Inter Bank Offered Rate

- The Monetary Policy Committee (MPC) re start quantitative easing (QE) and indicate its intention to sanction more.
- Gilt yields reach new lows, in spite of a recovery in equity prices and growing fiscal fears.
- Euro-zone policymakers fail to make progress towards a solution to the regions debt crisis.

A more detailed economic assessment at December 2011 is shown at appendix A

6. Interest Rate Forecasts

6.1 The latest forecast for interest rates provided by Sector is shown below:

	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%

The Sector central forecast is for the first increase in bank rate to be in September 2013 previous forecasts had shown a prediction of the first increase to be in June 2012. Sector have made comment of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments (or lack of them) in the sovereign debt crisis.

A more detailed summary outlook on the prospects for interest rates is shown at appendix B

7. Resources, Risk & Other Implications

7.1 The budget for investment interest for 2011/12 was set as £900,000. Current estimated returns show that there is likely to be a shortfall of £17,000 for the year.

8.1 The PAG is requested to:

1. Note the investment performance for the quarter to 31st December 2011.

Officer Contact:	**Mr H Woodbridge - Ext 7319** **Email address - howard.woodbridge @southbucks.gov .uk**
Background Papers:	**None**

Economic background:

Activity indicators suggested that the economic recovery ground to a complete halt in the third quarter and output may even have contracted. The weighted output balance of the CIPS/Markit surveys in October fell to a level that has been consistent in the past with a contraction in GDP. The output balance then broadly held at that level in November.

The CIPS surveys exclude the retail sector and the latest news from the high street has been poor, reflecting the pressures on households' finances. According to the official figures, retail sales volumes (ex. petrol) rose by 0.9% m/m in October but then fell by 0.7% in November, despite deep discounts offered by retailers. Timelier survey and anecdotal evidence suggests that, by and large, spending was weaker than usual in December.

Conditions in the labour market have also continued to deteriorate, albeit at a slower pace than in previous months. The Labour Force Survey measure of employment fell by 63,000 in the three months to October, a slower pace of deterioration than seen in the second quarter. The number of employees plummeted by 252,000 – but this was partly offset by a 166,000 rise in self-employment. Rises in the timelier claimant count measure of unemployment also became more modest – it increased by 'just' 2,500 on the previous month in October and 3,000 in November. Despite this moderating trend, employment surveys have continued to point to further job losses ahead.

The housing market has continued to recover, albeit slowly. The number of mortgage approvals for new house purchase rose from 51,200 in September to 52,900 in November. And according to the Nationwide, house prices were 0.6% higher in December than they were in September. Nonetheless, banks began the process of passing on the rise in their wholesale funding costs, reflecting the adverse effects of the euro-zone debt crisis, to consumers during the quarter.

The latest trade data tentatively suggested that net trade was on course to make a positive contribution to GDP growth in the third quarter. The trade in goods and services deficit narrowed from £4.3bn in September to £1.6bn in October (although the monthly deficit figures have been volatile recently). Some survey measures have also pointed to a recent pick-up in demand for exports as the new export orders balance of the CIPS manufacturing survey rose from 49.0 in November to 53.5 in December. At that level, it points to a quarterly rise in the volume of manufactured goods exports of around 2%.

Despite much weaker than expected GDP growth, the latest public finance figures showed that borrowing is coming in comfortably below last year's totals. Spending growth has slowed, while growth in tax receipts is still holding up reasonably well. And if the trend so far this fiscal year is sustained, borrowing will total about £122bn in 2011/12, equal to what the Office for Budget Responsibility (OBR) was forecasting until it revised its forecast to £127bn in its Economic and Fiscal Outlook that accompanied the Chancellor's Autumn Statement. The OBR also revised up its forecasts for borrowing in future years to reflect its much weaker expectations for GDP growth.

Inflation fell in the third quarter with CPI inflation falling from its recent peak of 5.2% in September to 5.0% in October and 4.8% in November. It probably fell further in

December as past rises in energy prices a year ago dropped out of the annual comparison. Inflation remained on track to fall further in the coming months. Oil prices, for example, remained largely range-bound between $105pb and $115pb, while petrol prices began to fall. Meanwhile, the continued weakness of indicators of money supply growth and firms' pricing intentions, as well as the still large degree of spare capacity in the economy, suggested that underlying inflationary pressures are still very weak.

Granted, measures of inflation expectations remained quite high – the Bank of England's measure of households' inflation expectations for the year ahead only edged down from 4.2% to 4.1% in Q3. But considerable slack in the labour market should continue to prevent the translation of these expectations into stronger earnings growth. Indeed, the annual rate of average earnings growth including bonuses rose was just 2% in October (a slight rise from 1.9% in September). Real pay growth has therefore remained negative.

The MPC restarted quantitative easing (QE) in October and announced £75bn of additional gilt purchases would be completed by February. The MPC also looked primed to sanction further purchases in Q4. The November Inflation Report forecast projected CPI inflation to be well below the 2% target in two years' time, while speeches by certain members of the Committee (such as Martin Weale and Paul Fisher) suggested that they thought there was a strong case for more purchases.

Largely reflecting this dovish stance, markets expectations for official interest rates continued to fall during Q3, helping government bond yields to drop to new record lows (the 10-year gilt yield fell from 2.43% to 2% at the end of the year). The drop may also have reflected growing demand for safe-havens – while bond markets thought that default risk on UK government bonds had grown during the quarter, they viewed that risk to be lower than in many other major economies, including Germany.

In contrast to the UK, the economic data improved in the US in Q3. The manufacturing ISM strengthened in November and December to a level consistent in the past with annual GDP growth of 2.5% to 3.0%. Non-farm payrolls also increased by 112,000 in October and 100,000 in November.

In the euro-zone, policymakers made little progress to deal with the region's debt crisis. The economic data in the euro-zone also continued to weaken – while the composite PMI rose in November in December, it remained below the theoretical "no-change" level of 50 and on past form was consistent with quarterly falls in GDP of almost 1%. A deep recession in the euro-zone remains a key risk to the outlook for the UK economy

SUMMARY OUTLOOK

Sector has undertaken a review of our interest rate forecasts as a result of two major events: -

1. The decision by the MPC to expand quantitative easing by a further £75bn. This tranche is due to be completed in February 2012. This decision had an immediate effect of depressing gilt yields at the long end of the curve. It also clearly underlined how concerned the MPC is about the prospects for UK growth and that recession is now a much greater concern than inflation.

2. The marked deterioration of growth prospects in the US, EU and UK, especially as concerns have further increased over Greece and the potential fall out from their debt situation. This has led in turn to a further increase in safe haven flows into UK gilts since our last interest rate forecast (16.8.11) which have depressed gilt yields and pushed PWLB rates to even lower levels.

These developments had left our short term forecasts for PWLB rates markedly out of line with actual rates. They also substantially pushed back our expectations of the timing of the eventual start of increases in Bank Rate gilt yields and PWLB rates.

In summary, our concerns around a slow down in prospects for GDP growth in the western world are as follows: --

US

- Despite better than expected data releases in the latter stages of 2011, weak GDP growth and lingering threat of a jobless recovery remain
- Fed unlikely to increase central rate until mid 2013
- Latest Fed Twist operation unlikely to save US economy from weak growth in the shorter term
- Near exhaustion of major fiscal and monetary remedies
- Political gridlock ahead of Nov 2012 Presidential elections for major fiscal action
- New President unlikely to make significant impact on the US economy in 2013
- Housing market still fraught and banks face rising losses on mortgages which will lead in turn to restricted supply of credit to the economy; little hope of the housing market turning around in the near future

EU

- Sovereign debt crisis is morphing into an EU banking crisis where some weaker banks will need semi-nationalisation to cope with a major write down of Greek debt, resulting in an increase in government debt levels. This in turn could threaten (e.g.) the French AAA rating and lead to an increase in concerns for the size of the French debt to GDP ratio. Currently all Eurozone sovereign ratings under review for possible downgrade.
- EU economy now heading into recession in 2012; increasing lack of supply of bank credit plus major fall in consumer and business confidence will inhibit economic growth

- High risk of Italy and Spain being fully dragged into peripheral sovereign debt crisis. Current proposed rescue measures are insufficient to cope with such a prospect.
- The latest proposals on tighter fiscal unity have been poorly received by markets. There have been scant signs of positive impact on equities, bond yields or expectations for Eurozone growth.
- German elections in 2013 getting ever closer; German voters hostile to bailing out Greece and other weak peripherals

UK

- 40% of UK GDP dependent on overseas trade; high correlation of UK growth to US and EU GDP growth means that the UK economy may only barely escape recession in the next two years
- Consumers have paid down total debt to income ratio from 180% in 2008 to 160%. OBR forecasts March 2011 for GDP growth of 2.5% in 2012 and 3.0% in the following three years are predicated on an increase in consumer spending and borrowing taking that ratio back to 175% by 2015 i.e. an increase of £570bn in debt. This is highly unlikely given current consumer sentiment, job fears, high inflation eroding disposable incomes, small or no pay increases, mortgagors coming off initial cheap fixed rate deals onto higher SVR rates etc.
- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth
- Little sign of a major increase in exports to boost UK growth
- QE2 likely to be too little too late to boost UK growth significantly in the near term

CHINA

- Increasing concerns that efforts to gently slowdown the economy to cool inflation could lead into a hard landing.

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Agenda Item 12

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