



**DEMOCRATIC AND ELECTORAL SERVICES**

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Date:	6 June 2012	Direct Line:	01895 837227

Dear Councillor

**RESOURCES POLICY ADVISORY GROUP**

The next meeting of the Resources Policy Advisory Group will be held as follows:

DATE: THURSDAY, 14TH JUNE, 2012  
TIME: 6.00 PM  
VENUE: ROOM 5, CAPSWOOD, OXFORD ROAD, DENHAM

Yours faithfully

Jim Burness

**Director of Resources**

To: The Resources Policy Advisory Group

Mr D Smith  
Mr Anthony  
Mr Chhokar  
Mr Hardy  
Mr Harding  
Mr Hollis  
Mr Jones



## 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

	(Pages)
1. <b><u>Apologies for Absence</u></b>	()
2. <b>Minutes</b>	
To receive the Part I minutes of a meeting of the Policy Advisory Group held on 5 March 2012.	(1 - 4)
A. <i>REPORTS LIKELY TO LEAD TO PORTFOLIO HOLDER DECISION / RECOMMENDATION</i>	()
3. <b>Dropmore Road Depot Waste Services</b>	
To consider report of Director of Services.	(5 - 12)
Appendix Ai	(13 - 14)
Appendix Aii	(15 - 16)
Appendix B	(17 - 18)
Appendix C	(19 - 20)
B. <i>REPORTS FOR INFORMATION / DISCUSSION</i>	()
4. <b><u>Treasury Management - Annual Report</u></b>	(21 - 28)
Appendix A1	(29 - 30)
Appendix A2	(31 - 32)
Appendix B	(33 - 34)
5. <b>Any other business</b>	
To consider any other business the Chairman decides is urgent.	()
6. <b>Exempt Information</b>	
To note the following items contains exempt information, which is not for Publication to the press or public:	()
7. <b>Minutes</b>	
To receive the Part II minutes of the Resources Policy Advisory Group held on 5 March 2012.	(35 - 36)
8. <b><u>Stoke Park</u></b>	(37 - 40)
Appendix A	(41 - 42)
Appendix B	(43 - 44)
Appendix C	(45 - 46)
9. <b>Dropmore Road Depot</b>	

To consider report of Director of Services. (47 - 48)

10. **Land Grenville Close Poyle Lane Burnham**

To consider report of the Director of Services. (49 - 52)

*Appendix A* (53 - 54)

*Appendix B* (55 - 62)

The next meeting of the PAG is due to take place on Thursday, 27 September 2012

**RESOURCES POLICY ADVISORY GROUP**

**Meeting - 5 March 2012**

Present: Mr Smith (Chairman)  
Mr Anthony, Mr Chhokar, Mr Hardy, Mr Harding and Mr Jones

Apologies for absence: Mr Hollis and Mr Wilson

**48. MINUTES**

The Part I minutes of the meeting of the Policy Advisory Group (PAG) held on 12 January 2012 were received.

**49. BAD DEBT WRITE-OFFS**

The PAG considered a report seeking authority to write - off a number of debts over £2,500 in accordance with the Council's Bad Debt Write - off Policy approved by Members in June 2011.

The list of write-offs as set out in Part II of the agenda contained 24 cases which between them totalled £99,859.14. Following the receipt of further information the PAG noted that action to write off 3 of the debts would be suspended pending further investigation.

Following consideration of the comments of the PAG, which supported the recommendation in the report, the Portfolio Holder has **AGREED**, in accordance with the authority delegated to him under paragraph 14 of the Financial Procedure Rules, to write-off the debts listed with the exception of the 3 debts referred to above.

**50. FINANCE PROCUREMENTS**

In accordance with the decision of both Chiltern District Council and South Bucks District Council to work together in order to improve value for money and deliver better services, the PAG considered a report setting out the options for aligning the following financial contracts across the two Councils in order to let joint contracts:

- Payroll;
- Insurance;
- Banking ; and
- Financial System

Having considered the comments of the PAG, the Portfolio Holder has **AGREED** to **RECOMMEND** to the Cabinet that the programme of financial procurements as set out in the report be endorsed and the appropriate contract extensions be approved.

**51. LAND WEST OF DENHAM ROAD, IVER HEATH**

(Councillor Harding declared a personal interest having previously been engaged by Iver Parish Council to maintain the piece of land)

The lease granted to Iver Parish Council in respect of land to the west of Denham Road, Iver Heath expired on 20 December 2011 and the PAG considered a report setting out options for the future use of the land.

During the discussion of the options a member expressed the view that the land had not been properly maintained during the period of the lease allowing ragwort to grow posing a potential health risk to animals, particularly cattle. The member also questioned whether Iver Parish Council had made application to DEFRA for a payment under the Single Payment Scheme (part of the

Common Agricultural Policy and the principal agricultural subsidy scheme in the European Union) to assist in the maintenance of the land.

Having considered the comments of the PAG the Portfolio Holder has **AGREED** to **RECOMMEND** to the Cabinet that a new lease be granted to Iver Parish Council in respect of the land, such lease to stipulate amongst other things:

- The responsibility of the Parish to maintain the land in accordance with an agreed management plan;
- A requirement for the Parish, in consultation with the District, to apply for any subsidies that are available under the Common Agricultural Policy and to use any subsidies so received to the benefit of the land; and
- A requirement for the Parish to re-invest any income received and profits made in the land.

**52. INVESTMENT PERFORMANCE QUARTER ENDING 31 DECEMBER 2011**

The PAG considered the report of the Director of Resources on investment returns for the quarter ending 31 December 2011.

The report, after explaining the background to the Council's Treasury Management Strategy 2011/12, went on to provide details of investment performance in relation to:

- In-house investments;
- Fixed deposit;
- Short term deposits; and
- Stoke Poges Memorial Garden Fund

The report concluded by providing an economic background and details of the latest forecast for interest rates.

**RESOLVED** that the report be noted.

**53. BUCKS WAN AND MANAGED SERVICES TENDER - UPDATE**

Following the presentation made at the meeting on 31 October 2011, the PAG received a report providing an update on the progress of the Bucks Public Service Network (PSN) and Managed Services OJEU procurement to replace the Bucks Wide area Network and associated services provide to the Council by Bucks CC with an externally managed service.

After explaining the result of the evaluation process which saw the top five ranked bidders being invited to tender for the PSN contract the report went on to set out the key milestones the final one being the Framework award on 14 August 2012. The report concluded with a description of the Council's role in the evaluation process and the services which will be provided as a result of the procurement.

**RESOLVED** that the report be noted.

**54. 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 12 January 2012 and 3 February 2012**

(Schedule 12A part 1 paras (1 and 3) - because of information relating to any individual / information relating to the he financial or business affairs of any particular person)

The minutes of the two meetings were received.

**Land at Broadway Car Park, Farnham Common**

## Resources Policy Advisory Group - 5 March 2012

(Schedule 12A part 1 paras (1 and 3) - because of information relating to any individual / information relating to the he financial or business affairs of any particular person)

Following the comments made by the PAG the Portfolio Holder agreed to recommend to the Cabinet and Council that the land be sold on the terms and conditions set out in the report.

### **Bad Debt Write-offs**

(Schedule 12A part 1 para (1) - because of information relating to any individual)

The PAG received a report providing a list of the bad debts referred to in minute 49.

The meeting terminated at 7.15 pm

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## Part I

<b>SUBJECT:</b>	<b>Dropmore Road Depot - waste services</b>
<b>REPORT OF:</b>	<b>Officer Management Team - Director of Services</b> <b>Prepared by - Head of Environment</b>

**1. Purpose of Report**

- 1.1 To seek approval from Members for the redevelopment of the Council's depot on Dropmore Road.

**2. Links to Council Policy Objectives**

- 2.1 This matter is related to the following local and national policy objectives:

- South Bucks Sustainable Community Strategy and Corporate Plan Key Theme - Sustainable Environment - protecting our heritage, protecting our future.
- Council priority to continue to improve the street scene and cleanliness of the district as a key public services coordinator
- The current Joint Waste Management Strategy for Bucks policies, including "to secure a long-term strategy for the management of wastes for which the member authorities are collectively responsible".
- The Council's recycling/composting target of 60% by 2025 as part of the Joint Waste Management Strategy for Bucks. The national target of 45% by 2015 and 50% by 2020. There are no longer District specific targets.

**3. Background.**

- 3.1 The following services are undertaken by Biffa Municipal Ltd on behalf of the Council:

- Domestic refuse and recycling collections for over 27,000 properties;
- Refuse and recycling collections from schools and charities etc;
- Recycling bring site emptying;
- Bulky waste collections from households (fridges, furniture etc);
- Clinical waste collections (by referral only);
- Litter picking and road sweeping;
- Litter and dog bin emptying;
- FLYtipping removal;
- Rapid response litter, graffiti, flyposting and chewing gum removal;
- Abandoned vehicle removal;
- Other similar duties as and when required (e.g. car park salting)

- 3.2 These services have operated from a depot that Biffa have been able to lease from CDC on London Rd East south of Amersham since 1<sup>st</sup> November 2007. Biffa also currently have the contract with CDC for the above services, and joint efficiencies have been made possible by sharing this depot. However the lease Biffa has with them that allows our contract to operate from the site will expire on 31<sup>st</sup> October 2012, which is the date that Biffa's contract with CDC was due to end prior to the recent decision to extend it until March 2013.

- 3.3 Prior to the start of our current contract in 2007, waste, recycling and street cleaning services were operated by Biffa from a depot in the Wycombe district. This was expensive, and one of the ways the successful bidder Verdant Group Plc was able to offer a lower price was through sharing a depot with another of their customers Chiltern DC. Verdant Group Plc later became Biffa Municipal Ltd.

- 3.4 CDC is currently procuring a new waste contract together with WDC and plan to share the depot with them when the new contract is due to begin. This was due to be on 1<sup>st</sup> November 2012. However it has recently been decided that the new contract will start in March 2013 due to slight delays in the procurement process. The new CDC / WDC contract will probably be based at the London Road depot. Although CDC are only required to give Biffa one month's notice to vacate the depot, SBDC Officers had at the time of writing been given verbal notice to move the vehicles and contract management from the site when the new contract starts. This is because they believe that there will not be enough room for all three contracts to operate.
- 3.5 Recycling material collected in all four Districts is currently tipped at this depot either for sorting and/or bulking for onward transportation for recycling. A Paper Sorting Facility (PSF) that is owned by CDC but into which all three southern districts have invested capital in is also located on the site. This facility also has an uncertain future due to the CDC/WDC contract. This will not be discussed in detail in this report, however it is worth noting that if the PSF closes this may free up enough space for SBDC to continue using the site even if we operate different recycling schemes to CDC and WDC, but this is not clear at this stage
- 3.6 SBDC owns two depots in the District. Taplow Depot on the Bath Road (A4) adjacent to Burnham Sewage Works was used as a storage facility by the Council until recently. All buildings on site have been demolished and it is available for use as a base for various organisations during the Olympics pending it being let as a storage yard in the medium term pending wholesale redevelopment. This site has been assessed as being unsuitable for waste purposes due to the size and access restrictions. Utilising the Bath Rd site in addition to another site would result in a significant reduction in rental income to the Council. The second, larger site is on Dropmore Road in Burnham and contains seven units, all of which are leased to tenants including the Contracts Section for the storage of recycling boxes and similar equipment. The location is shown on the plan at Appendix A.

#### 4. Discussion.

##### Current Situation

- 4.1 The depot on Dropmore Road in Burnham has been identified as a suitable location for an operational base for these services. Planning permission has been sought to use the site as a base for the operational vehicles and granted and the current tenants have been given notice to quit by 30<sup>th</sup> June.
- 4.2 Although we have been verbally informed that we will need to vacate London Road East as a base for our operations, informally, CDC has not expressed any objections to our continuing use of the site to tip our recyclable material as mentioned above. However the management of the materials they collect will be passed to their new contractor who may close the paper sorting facility on site and/or decide that it is not operationally practicable for us to continue using the site. We do not expect to know whether this will be the case until the successful bidder is announced in early October 2012.
- 4.3 Therefore, there is a risk that we may be unable to use the site to tip the recyclable materials we collect from households and recycling bring sites at fairly short notice. In order to mitigate this risk it is proposed that the depot on Dropmore Road is re-developed further to accommodate these operations.
- 4.4 Members are asked to note that with regards to disposing of residual (black sack) waste, that we expect to continue using Wapsey's Wood Landfill Site for the foreseeable future until the Energy from Waste Facility north of Aylesbury is commissioned. At that point,

we will be asked to take our waste to transfer stations at either the London Road Depot (to a facility unconnected to the area we currently use to tip recycling) or High Heavens at High Wycombe. At the time of writing only the latter site has been granted planning permission.

4.5 Planning permission to use the depot on Dropmore Road as a base for our operations was granted 22/09/2010 and amended in 06/07/2011 to increase the hours of operation. It is not possible for the current or future service to operate effectively with just the current planning consent in place and with the current site configuration. This is because:

- fuel will need to be purchased from petrol stations rather than directly from suppliers;
- it is not possible to bulk recycling materials;
- staff welfare facilities do not meet minimum standards (e.g. provision of showers);
- the site drainage does not meet modern standards;
- the site layout is not ideal with regards to H & S;
- the current site layout doesn't allow for any changes to our service that would require additional vehicles;
- there is no weighbridge on site for us to fulfil the EA licence requirement to weigh material in and out.

4.6 Our contract with Biffa Municipal Ltd is designed to be open and transparent with a partnership approach to challenges and is supported by a Performance Improvement Board. As part of this arrangement, Biffa are required to spend the equivalent of £30,000 in money or equivalent internal assistance annually to improve our services.

#### Future of London Road East Depot

4.7 Recycling collection schemes in the three southern districts are similar and tipping our materials together in one location currently works well and we have no desire for this to change. However CDC and WDC may decide to collect and bulk recyclable waste in a different way from March 2013 depending on the outcome of their tendering process.

4.8 Therefore it currently is not known, and won't be for several months, whether we will be able to continue tipping our recyclable waste at the London Road depot in the future and if we cannot, we will not have enough notice to redevelop the Dropmore Road site unless we progress this now. Biffa were unable to suggest any alternative locations in and around the District that would be suitable for our needs when asked. Therefore action needs to be taken now to secure the continuity of our most front-line service. It is also important that the travelling distances are minimised between where we collect waste in the district and where the vehicles are based, and generally that waste and recycling is managed in a way that reduces costs.

4.9 Members are asked to note that the current or potential future arrangements in place to use the London Road East depot for recyclable materials are not related in any way to the proposal by Bucks CC to locate a refuse transfer station elsewhere on the site.

#### Future of Dropmore Road Depot

4.10 The site layout shown at Appendix B is proposed. The site has been designed to meet our needs by experienced engineers commissioned by Biffa through the addition of:

- A wider entrance/exit to cope with the larger vehicles needed to empty the recycling bays;
- Safer layout with walkways for pedestrians and better H & S arrangements in general;

- Covered and uncovered bays to tip recyclable materials currently collected and space to add further materials in the future should current services change;
  - A weighbridge to meet the requirement for all material to be weighed in and out;
  - A more modern and fit for purpose drainage system;
  - Fuel tank on site so that petrol stations will not need to be used;
  - Slightly increased space between the active site and the nearest residential neighbour to the south;
- 4.11 Members are also asked to note that officers anticipate making small fuel efficiency savings by having our depot within our district. These cannot be accurately calculated at this time as collection rounds may need to be reconfigured to achieve these.
- 4.12 The Performance Improvement budget mentioned in para 4.6 is being drawn upon to reduce the costs of submitting the planning application for a change of use of the Dropmore Road depot. So far, all costs have been met using existing SBDC staff resources and budgets.
- 4.13 Officers undertook pre-planning consultation with neighbours and submitted a planning application for this proposal on 11<sup>th</sup> May. The concerns of residents that we have been able to address include noise mitigation through the erection of a solid fence on the Southern boundary and tipping of glass inside a building and visual concerns with landscaping.

#### Planning and Licensing Matters

- 4.14 Dropmore Road depot is situated in the Green Belt and officers and Biffa have been consulted with the planning department prior to submitting the planning application to ensure that any restrictions can be mitigated. Although the overall area of the new proposed site in terms of hard surface is slightly larger, the footprint of the buildings have been reduced by 50%. In addition the maximum height of the new building is the same as the current tallest building on site. Pre-planning advice from the Planning Department indicates that the proposal is likely to be acceptable in planning terms. A traffic impact assessment, noise assessment and tree assessment accompanied the application. It is hoped that the planning application will be considered by the Planning Committee on 11<sup>th</sup> July.
- 4.15 In addition a bespoke licence from the Environment Agency and an Operator's Licence from VOSA will need to be sought. The former will incur ongoing annual costs of an estimated £2.5k per year in addition to a one-off cost of around £5.5k. The cost of the Operator's Licence will be met by Biffa. A specialist in these matters who works in Biffa's Planning Dept will arrange these on our behalf.

#### Project Management and Procurement

- 4.16 This project is being run in line with the Council's project planning guidance and a detailed project plan is being followed. The project can essentially be split into two broad phases. Phase 1 can be seen as the preparation and procurement stage where planning permission and all necessary permits are applied for, tender documents are prepared and we go out to tender for the content of Phase 2.
- 4.17 Phase 2 is the demolition and construction stage where works will be undertaken to turn the site into a fully functioning depot.
- 4.18 Whereas overall project management responsibility for both phases rests with officers, the significant level of experience and expertise that Biffa and their usual specialist engineering contractor HBL Associates have will be used to estimate construction costs,

prepare and submit the planning application and assist in preparing technical aspects of the tender documents in phase 1 and oversee all of phase 2.

4.19 Due to the existing working relationship and experience of successfully completing almost identical projects Biffa and HBL Associates have, it is proposed that the requirement contained in our Contract Procedure Rules to obtain at least 3 quotes be waived to appoint HBL Associates to assist us with the above aspects of this project at a cost of £45,000. Due to the risk of the tender process for the works being delayed, the Director of Services has agreed to use his discretionary powers to waive Standing Orders to allow preparation to commence. Members are asked to note that work undertaken by HBL until that decision was made was paid for by Biffa out of the Performance Improvement Budget described in para 4.6. All other works will be procured by SBDC in line with Standing Orders as usual.

4.20 The key milestones are expected to be:

- Commence tender for demolition and building works w/c **14<sup>th</sup> May**;
- Permit application submitted to Environment Agency **14<sup>th</sup> June**;
- Apply for Operator's Licence w/c **18<sup>th</sup> June**;
- Application to be considered by planning committee **11<sup>th</sup> July**
- Tenants to vacate units by **30<sup>th</sup> June**;
- Award tender for demolition and construction **18<sup>th</sup> October**
- Commence works on site **15<sup>th</sup> November**;
- Depot fully operational **5<sup>th</sup> March 2013**

Members are asked to note that if the tenants do not vacate the site as required on 30th June that legal proceedings to rectify this has been allowed for in the timetable.

4.21 Following our move to the new site, it is proposed that a lease is granted to Biffa to occupy the site and that it is fully maintained by them through a variation to our contract with them. Officers do not envisage that any further capital expenditure will be necessary prior to the end of the current contract with Biffa (November 2021).

#### Resource Implications - Capital

4.22 The total capital cost of redeveloping the depot on Dropmore Road is contained in a Part II report that accompanies this report. This includes:

- Demolition;
- Waste Disposal (including asbestos) where material cannot be reused on site;
- Drainage update and hardstanding installation;
- Sturdy bays for storing recyclable materials;
- Simple kit buildings for offices, welfare facilities, material bay cover and equipment storage;
- Weighbridge and fuel tank purchase and installation;
- Planning application fees of £1,340

4.23 An alternative depot for our waste, recycling and street cleaning services is needed regardless of whether we construct it ourselves or rent one elsewhere.

#### Resource Implications - Revenue

4.24 The one-off revenue costs of this project and the initial consultancy costs to date have been covered by the Performance Improvement Budget mentioned in para 4.6. In addition the Environment Agency Permit will incur annual costs of £2.5k per year in addition to a one-off cost of £5.5k as mentioned in para 4.15. These costs are currently estimates because we will be applying for a bespoke permit. Also, the weighbridge will

need to be calibrated and maintained regularly in order to remain compliant at an estimated cost of £5,000.

- 4.25 A table showing the annual net revenue effect of moving operations to Dropmore Rd Depot is contained in the part II section of this report.
- 4.26 The annual cost of business rates is already included in a one off charge we make to Biffa as part of our monthly contract payment.
- 4.27 Should the site be developed as proposed in para 4.10 and not used by SBDC, indications by the current letting agent used are that we could achieve a rental income of £20,000 per year.
- 4.28 There is currently no revenue or capital budget allocated for maintenance at Dropmore Road Depot and the exiting tenants are expected to keep the units in good decorative order. However this is not sustainable as the asbestos roofs of two of the units will need to be replaced within the next few years and the toilets will need to be refurbished within the next 5 years. Therefore the ongoing revenue cost of maintaining the redeveloped site is felt to be comparable to or less than the amount that would need to be spent anyway.

#### Conclusion

- 4.29 Members will note that in view of the time it will take to redevelop the Dropmore Road depot as a base for this service to operate from by March 2013, a decision is required at this stage to instigate this project. The Council cannot wait until the outcome of the new CDC/WDC contract is known before progressing this.
- 4.30 Although we have been given verbal notice to vacate the site, we won't know whether we can continue to bulk our recycling at the London Rd site as described in para 4.8 until after the successful bidder of the CDC/WDC joint contract is announced on 3<sup>rd</sup> October. However we need to award our own contract for demolition and construction by 18<sup>th</sup> October at the latest.
- 4.31 If CDC/WDC and the successful bidder decide that we are able to continue tipping recyclable waste at the London Rd site, it may be prudent to scale back the construction project at Dropmore Rd to suit. Unfortunately, unless they make this decision by mid-October, we will need to award our own contract for the demolition and construction works without knowing this.
- 4.32 Members are asked to note that a decision to delay the construction of the bulking bays/building until after the new site is operational will increase costs slightly.
- 4.33 With the above in mind, Members will need to decide now that this project needs to be progressed but will be able to delegate the final decision on this matter to be made by the Portfolio Holder in consultation with Director of Services to decide whether to award the contract to commence full or partial works in mid October in the light of the position with regard the London Road Depot at that time.

#### **5. Resource and Wider Policy Implications.**

- 5.1 With a total capital costs predicted to be as per the Part II report and revenue costs of £64,000 per year, this investment in our service clearly has significant resource implications for the Council. However it is felt that the long-term security that will be obtained from finally having our own depot and the confidence and opportunity it will give us to improve our services outweigh these costs. This is notwithstanding our likely forthcoming eviction from our current depot.

- 5.2 With regards to making future changes to our services in line with the desire to recycle and compost more and work with Bucks CC to reduce the amount of residual waste arising; uncertainty about our future depot location and the outcome of the CDC/WDC contract is one of many risks that Officers are working to mitigate. A register of these risks is at Appendix C.
- 5.3 Members are asked to note that should this project ceased to proceed at any time, that abortive costs dependent on when and why this happens may be payable.
- 5.4 The risks associated with this matter together with the mitigation are as follows:

Risk	Impact	Likelihood	Mitigation if Dropmore Rd Depot not developed.
We have no operational depot when the new CDC/WDC contract starts	4	1	Would work with Biffa to find an alternative but would be at a cost.
We have nowhere to manage our recyclable materials when the new CDC/WDC contract starts	4	2	Could direct deliver to recycling facilities or Biffa transfer stations out of the County. Would be resource intensive.
If not needed by SBDC, the rental income achieved at the redeveloped or undeveloped depot is lower than anticipated.	2	2	If the right customer is found then this should not be an issue. Otherwise the capital payback time will be longer.
Planning permission is refused.	4	1	Pre-application consultation with Planners and site neighbours should reduce this risk significantly.
The Environment Agency Permit and Operators Licences are refused.	3	1	Biffa's resident expert on these matters has visited the site and not raised any issues.
The project exceeds the allocated budget.	2	2	Estimates are just that and they won't be known until the tendering process is complete, but costs are being monitored closely so that swift remedial action can be taken if needed.

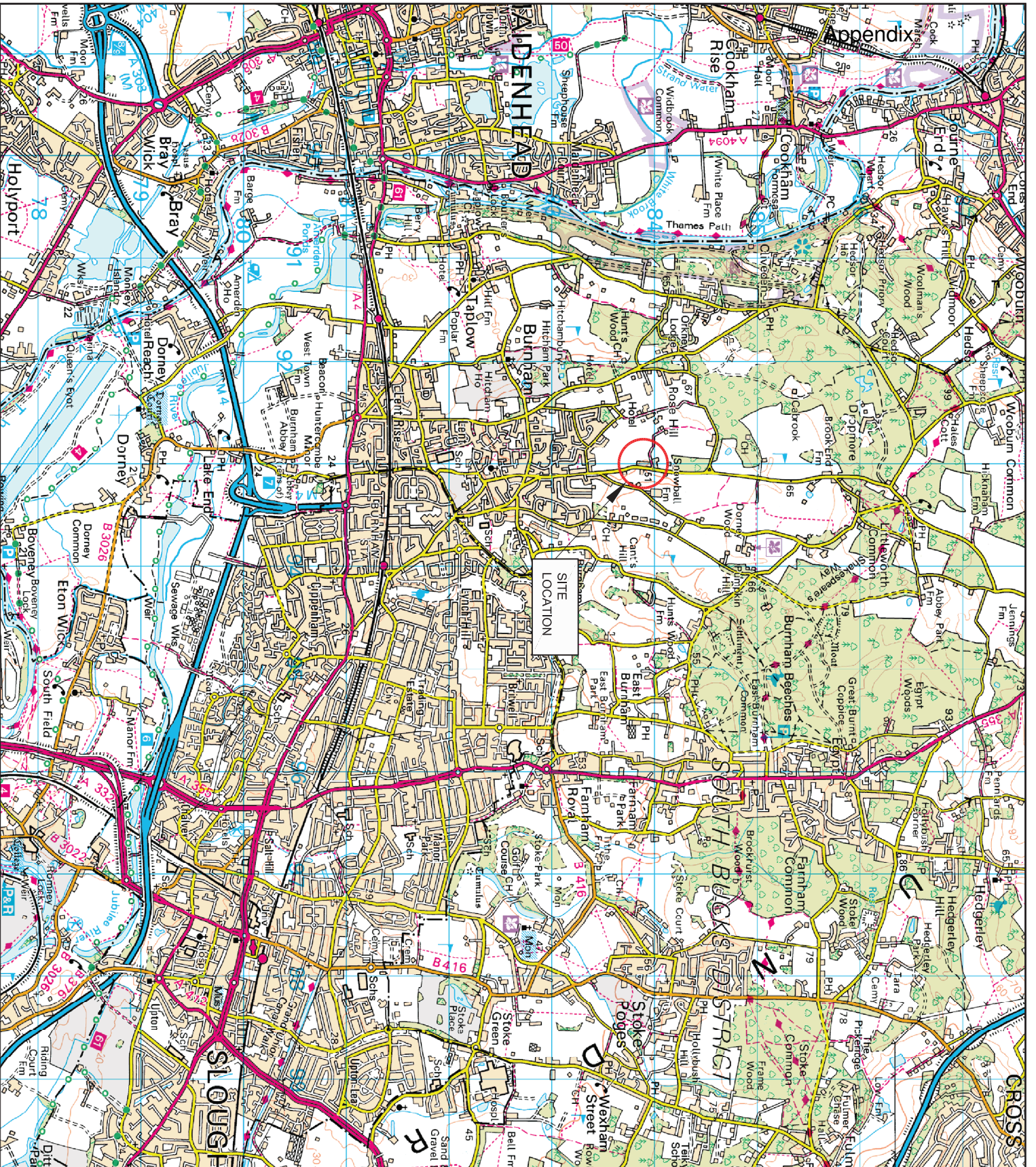
## 6. Summary.

- 6.1 All capital expenditure and revenue outside the remit of current budgets and delegation to the Portfolio Holder and Director of Services will require Cabinet and Council approval. Members are asked to advise the Portfolio Holder as to whether to recommend that:
- The capital highlighted in the accompanying Part II report be added to the Capital programme
  - and £64,000 (net revenue effect) required for the redevelopment of Dropmore Road Depot are approved either now or by the Portfolio Holder in October be noted;
  - Subject to the above being approved, that the final decision is delegated to the Environment Portfolio Holder in consultation with the Director of Services to decide whether to award a contract to commence the necessary works to the depot as described in the report in October 2012.
  - That in due course the depot is leased to Biffa and their contract is varied to reflect its rent free occupation and also to give them the responsibility of maintaining the weighbridge and the contract budget be altered accordingly.

In addition, Members are asked to note that the Director of Services has agreed to use his powers of urgency in respect to the requirement that Contract Procedure Rules requiring 3 quotes to be obtained are waived to appoint Biffa's preferred Engineers on a consultancy basis at a cost of £45,000 capital as outlined in para 4.19.

<b>Officer Contact:</b>	<b>Elizabeth Cullen, Contracts Manager, 01895 837330</b> <b>elizabeth.cullen@southbucks.gov.uk</b>
<b>Background Papers:</b>	<b>Working File</b> <b>Planning Permissions 10/01185/FUL and 11/00864/VC and Planning Application 12/00797/FUL</b>





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REV.	DATE	DRAWN	ISSUED FOR PLANNING DESCRIPTION	ALS	CHKD	APPD
0	FEB 12	LDM				



**HBL ASSOCIATES**  
 CONSULTING AND STRUCTURAL ENGINEERS  
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 Telephone: 01455 433 709  
 Email: consultants@hblassociates.co.uk  
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**ISSUED FOR PLANNING**

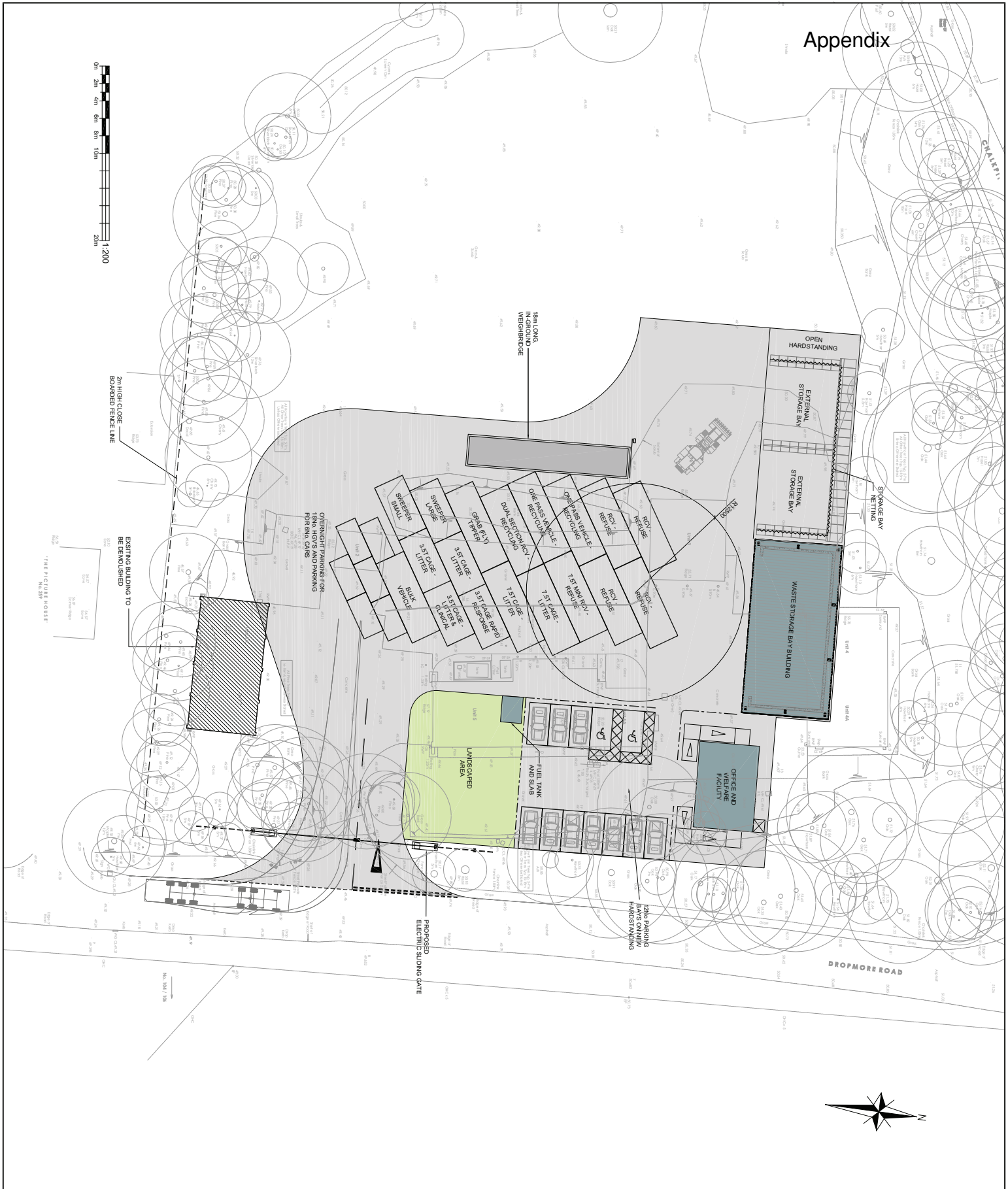
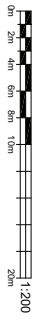
CLIENT	PROJECT	LOCATION	DRAWN	CHECKED	DATE	APPROVED
BIFFA WASTE SERVICES LTD.	SITE DEVELOPMENT	SOUTH BUCKS	LDM	ALS	FEB 12	

DRAWING NO.	HBL REF.	SCALE(S)	REVISION
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**LEGEND**

-  ACCESS BARRIER
-  CLOSE BOARDED FENCE
-  HANDSTANDING AREA = 250m<sup>2</sup>
-  BUILDING AREA = 250m<sup>2</sup>
-  LANDSCAPING AREA = 250m<sup>2</sup>

<b>CLIENT</b>	BIFFA WASTE SERVICES LTD.		
<b>PROJECT</b>	SITE DEVELOPMENT		
<b>LOCATION</b>	SOUTHBUCKS		
<b>DRAWING TITLE</b>	PROPOSED SITE LAYOUT GENERAL ARRANGEMENT		
<b>DRAWING NO.</b>	P05	<b>HILL REF.</b>	3083
<b>REVISION</b>			3

<b>STATUS</b>	<b>ISSUED FOR PLANNING</b>		
<b>DRAWN</b>	LDM		
<b>CHECKED</b>	ALS		
<b>APPROVED</b>	ALS		
<b>DATE</b>	FEB '12		
<b>SCALE(S)</b>	1:200		
<b>ORIENT</b>	A1		

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**Risks register for changes to refuse and recycling contract**  
**May 2012**

Risk	Current situation / solution	Status
Depot - SBDC currently shares a depot with CDC (London Rd East) as we both have contracts with Biffa. If in 2012 Biffa do not win the joint contract then sharing a depot is unlikely to be viable and we would have to move to Dropmore Rd. This will affect the costs.	This unknown is in place regardless of whichever way forward is chosen. It is not anticipated that costs will change significantly if the Dropmore Rd depot is used. Dropmore depot planning for operation secured and leases have break clauses.	
Avoidable disposal saving (ADS) discussions with BCC	Payments are unlikely to be higher if future disposal costs are reduced when the EfW is commissioned.	
Glass titan contract with ASM expires in March 2012. Due to be incorporated into CDC/WDC joint contract from March 2013.	ASM to continue service as long as needed on a purchase order basis.	
Glass disposal contract in place until 31 <sup>st</sup> October 2012. Risk that delay in CDC/WDC procurement will require this to be extended.	Due to be incorporated into CDC/WDC joint contract from 1 <sup>st</sup> Nov 2012. Achievable but need to liaise with them on this matter.	
PSF operational contract due to end when joint CDC/WDC contract starts. Shotton contract ends 31 <sup>st</sup> March 2018. Capital agreements end 29/06/2013 and 29/06/2023.	Future of PSF unsure. Outcome of CDC/WDC contract will influence options. SBDC income from interest in capital is significant.	
Extension to Biffa contract until 1 <sup>st</sup> November 2021	Complete	
EfW project run by BCC.	Until planning granted and contracts let commencement date unclear. This effects ADS project plus when WTS come into operation.	
IAA with BCC	Negotiations near to a close - linked to ADS discussions	
Legislation changes can have an impact on our services.	Keep abreast of consultation documents and industry/think-tank/quango recommendations and remain as flexible as possible. Waste review now clear.	
The new collection method will require our collection rounds to be re-structured. Accurate round lengths have not been calculated in the time given and estimates have been used.	This is not expected to make a significant difference in costs as it is in all of our interest to structure the rounds as efficiently as possible.	
The disposal points for refuse, food and garden waste are not yet known and still may not all be known in 2012. The most cost effective option is likely to rely upon having food, recycling and refuse disposal points <u>in the same location</u> .	On going discussions with Bucks CC. Potentially they have agreed to pay Biffa gate fee costs so they can source disposal locations. Extra mileage than at present may / may not be offset by a "tipping away" payment.	
If the collection method changes were made in 2012 our refuse and recycling vehicles would either have to last 9 years (rather than the usual 7) or new vehicles may have to be purchased or hired before the end of the contract. Additional maintenance costs may need to be included to cover the potential	It is feasible for vehicles to last up to 9 years when a transfer station is used instead of landfill, where significant damage and wear and tear occurs. The timing of the BCC EfW will affect the life span of our vehicles. Dependant upon start date.	

cost of keeping the vehicles on the road for longer than expected.		
Waste Transfer Stations (WTS) -possibly being built subject to planning at London Road or High Heavens	Awaiting confirmation form BCC as to where and when plus all subject to planning. High Heavens granted PP.	
The chargeable garden waste collection service would be administered and paid for by Biffa and is based on a predicted minimum participation rate of 3,000 properties. SBDC would benefit financially at a yet to be agreed amount from this service once this participation rate has been achieved.	Participation wont be clear until scheme starts and charge level needs to be agreed by Cllrs.	
Exact method of delivering new service ie comingled / separated and food waste on refuse vehicle pod or separate vehicle needs to be resolved.	Costs to be finalised and risks or each and reported to Cllrs.	
Level of public consultation to be agreed	Needs to be reported to Cllrs	
Capacity of recycling vehicles could be a concern when plastics are included.	Trial will give a good idea of likely tonnages	
As many multiple occupancy properties as possible would have to be taken off the front line rounds and put on the bulk collection vehicle. Flats not included in new service Options.	Part of round review prior to start of new service	
May not have a tipping point for co-mingled recyclables at London Rd (or vice versa) and tipping at Dropmore Road to be explored further.	Keep an eye on CDC/WDC procurement process. Need to get a steer throughout the process as to which recycling options are preferred and whether the PSF remains operational. Keep options open for SBDC.	
The new method of collection may, in reality be rolled out over a period of time, and it may not be possible to roll out when we would like to if disposal facilities are not available.	Disposal facilities provided by Bucks CC are more likely to be in place by 2014 than 2012.	



<b>SUBJECT:</b>	<b>Treasury Management - Annual Report 2011/12</b>
<b>REPORT OF:</b>	<b>Officer Management Team - Director of Resources</b> <b>Prepared by - Principal Accountant</b>

**1. Purpose of Report**

1.1 To report to Members on the Treasury Management performance of the Council for 2011/12.

**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 In December 2001, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Revised Code of Practice on Treasury Management which CIPFA amended in 2009 in light of the situation with the Icelandic banks. This Council adopted the code in June 2002 and the amended code in February 2010. The Council fully complies with the requirements of the amended code.

The primary requirements of the code are the: -

- (i) Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies, and objectives of the Council's treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices, which sets out the manner in which the Council will achieve those policies and objectives.
- (iii) Receipt by the Cabinet and Council of an annual strategy report for the year ahead and an annual review report of the previous year.
- (iv) The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

3.2 In addition the Department for Communities and Local Government (DCLG) requires each local authority to approve an annual Investment Strategy from 2004/05 onwards.

3.3 Treasury management in this context is defined as:

The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.4 This report represents the annual report 2011/12.

**4. Annual Report on Treasury Management 2011/12.**

- 4.1 As a debt free authority the treasury management activities of the Council are exclusively concerned with the investment of its reserves, as the Council does not undertake any borrowing.
- 4.2 The Council's Treasury Management Strategy 2011/12 details the following sources for generating investment income for the year:
- Set an estimated return on investment income for the year of £900,000.
  - Set the sources for generating investment income for the year as follows:

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

- 4.3 Officers invest cash flow surpluses with approved counter parties. Members approved a new matrix for in house 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

Details of the Councils fixed and callable investments at the end of the financial year and how they met this matrix are shown in 4.7 of this report.

- 4.4 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.
- 4.5 A summary of the movements in the year is as follows: -

	Fund Balance 1.4.2011 £,000	Fund Withdrawals £'000	Added to Fund £'000	Fund Balance 31.3.2012 £,000
Temp in house cash balances	2,561		893	3,454
Fixed Deposits	23,000	(19,500)	17,500	21,000
Stoke Poges Memorial Gardens Fund	1,509		49	1,558
Total	27,070	(19,500)	18,442	26,012

- 4.6 A comparison of returns to budget for the year is shown within the Resources, Risk and Other Implications section later in this report.
- 4.7 In House Investments: 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 market briefings made available to the authority.

A summary of the Council's holdings of callable and fixed deposits at 31<sup>st</sup> March 2012 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%	08/02/12	08/02/17	(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	A					
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	
Total Lloyds Group		6,000,000				
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				
Total Deposits		21,000,000				

(1) RBS have the option to switch to 3 month LIBOR<sup>1</sup> in years 3, 4&5.

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

In addition the Council held the following investments of short term cash at the end of the year with its banker Nat West:

	Amount £	Interest Rate	Notes
Nat West Bank	1,954,000	Base + 34 Basis Points	Instant Access
Nat West Bank	1,500,000	Base + 60 Basis Points	30 Day Notice Account
Total	3,454,000		

<sup>1</sup> LIBOR - London Inter Bank Offered Rate

#### 4.8 Investments in the first quarter of 2012/13

During the discussion when the Treasury Management Strategy 2012/13 was approved on 12<sup>th</sup> January 2012 Members noted that £8 million of fixed deposits would mature during 2012/13 and would be available for reinvestment. Members supported the proposal to seek a greater diversification of the investment portfolio by increasing the number of counterparties used and also considering investing in corporate bonds always having regard of the need to balance risk against the rate of return.

4.9 There will be £3 million that matures in July 2012 with the balance maturing during October and November. In April Sector were asked to provide details of current corporate bonds that met the Council's credit rating of AA- and above, with a duration of 18 months however the results did not indicate any suitable investment opportunities. Sector have been asked to rerun the exercise for AA- and above and the results are shown at appendix A1 for UK or Supranational institutions with a duration of up to 2 years. As can be seen from the results the bid yield to maturity which gives the indication of the return the Council would receive is much lower than we are currently achieving in cash. Sector were also asked to run the exercise to show what additional UK or Supranational counterparties with a duration of up to 2 years and a return of over 2% would be available should Members wish to consider reducing the credit criteria further to A and the results of this exercise are shown at appendix A2. As can be seen this change would add a few opportunities however those with the highest rate of return Santander and RBS are those where the Council has already reached its maximum counterparty limit.

4.10 With regard to the investment of short term cash flow a review of the Council's requirements for the year and indicated that it would be possible to invest £4 million in fixed deposits for 6 and 9 months in order to obtain better returns, and these are detailed below. This will help to maximise the returns on our short term cash particularly as the Council's banker, Nat West, are in the process of reducing the rates they pay on their short term investment account and have given notice that they will reduce the rates that they are paying to the Council from 13<sup>th</sup> July 2012 for instant access from base plus 34 basis points (0.84%) to base (0.50%) and on the 30 day notice account from base plus 60 basis points (1.10%) to base plus 25 basis points (0.75%). These investments will also add an element of diversification to the portfolio.

- £1 Million with Clydesdale Bank (A) fixed for 6 months on 15/05/12 at 2.05%
- £1 Million with Co-op Bank (A-) fixed for 6 months on 16/05/12 at 1.8125%
- £1 Million with Lloyds/Bank of Scotland (A) fixed for 9 months on 15/05/12 at 2.00%
- £1 Million with Close Brothers Treasury\*(A) fixed for 9 months on 22/05/12 at 2.10%

\* Close Brothers Treasury has a Fitch rating of A with a stable outlook and therefore meets the Council's credit criteria. Close Brothers Group is a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions. It was established in 1878 and is a member of the FTSE 250. They are a domestic UK focused bank transacting mostly in sterling and with only a minimal currency exposure. The group does not hold sovereign debt issues by Greece, Ireland, Italy, Portugal or Spain.

4.11 Stoke Poges Memorial Gardens Fund: There were no maturities from the Stoke Poges Memorial Gardens Fund due in 2011/12. The current market value of the fund at 31<sup>st</sup> March 2012 was £1,557,634.88.

## 5. Investment Policy & Procedures

- 5.1 As detailed in 3.1 above the Council has adopted the CIPFA Code of Practice on Treasury Management.
- 5.2 The Code recommends the creation & maintenance of Treasury Management Policy & Procedures. These are already in place and were last reported to Members in October 2011.
- 5.3 It is not expected that the procedures will need to be revised very often and any changes have therefore been delegated down to the Chief Finance Officer. However it is the intention that a copy of the document is brought to Members attention on an annual basis and will be reported to the September meeting of this PAG.

## 6. Economic Background & Interest Rate Forecast

- 6.1 The original expectation for 2011/12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market the EU. The EU sovereign debt crisis grew in intensity during the year until February when a refinancing package was eventually agreed for Greece. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PwLB rates to historically low levels.

Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Euro zone concerns, the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

- 6.2 A more detailed assessment of the economic background provided by Sector is shown at appendix B.
- 6.3 The prospect for future interest rate rises is illustrated in the latest Sector forecast for interest rates shown in the table below:

	<u>Jun 12</u>	<u>Sep 12</u>	<u>Dec 12</u>	<u>Mar 13</u>	<u>Jun 13</u>	<u>Sep 13</u>	<u>Dec 13</u>	<u>Mar 14</u>
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%

The Sector central forecast is for a March 2014 first increase in Bank Rate.

## 7. Resources, Risk & Other Implications

- 7.1 A comparison between the actual returns for 2011/12 and the budget is shown in the table below:

	Budget 2011/12 £'000	Actual 2011/12 £'000	Variance 2011/12 £'000
Fixed Deposits	646	699	(53)
Short Term officer Investments	155	79	76
Paper Sort Loan <sup>2</sup>	24	24	0
Other Miscellaneous Interest <sup>3</sup>	0	9	(9)
Less Other Interest <sup>4</sup>	0	(12)	12
Stoke Poges Memorial Gardens Fund	75	75	0
Total Returns	900	874	26

- 7.2 There was an under achievement of £26K budget during 2011/12 which is mainly a result of lower than anticipated interest rates achieved for in house investments, due to the prolonged period of historically low interest rates. The original budget for the year assumed a modest recovery in rates in the last quarter of the year which did not materialise.
- 7.3 Meeting the interest target of £800,000 for 2012/13 will be dependant on interest rates not reducing further and there being a move in the markets later in the year to expect some modest increase in rates. In the current economic circumstances the risk for the target is to the downside.

## 8. Summary

8.1 The PAG is requested to:

- Note the investment performance for 2011/12.

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

<sup>2</sup> The Council is a partner with Chiltern DC and Wycombe DC in a scheme that provides paper sort facilities. As part of the set up arrangements the Council made a loan of £300K to the facility, which is repayable over a period of 20 years at an interest rate of 8%.

<sup>3</sup> Miscellaneous interest includes interest from car loans, Swan Road, the sale of the Manor House and in respect of transferred debt from the reorganisation of Local Government in 1974.

<sup>4</sup> Interest is credited separately to a number of the Council's earmarked funds but mainly the monies from the section 106 agreements.



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## Appendix A1

Short Name	Coupon	Maturity	Years from Today to Maturity Date	Bid Yield To Maturity	Fitch Rating	Country Full Name	Amount Issued
BRADFORD&BIN BLD	5.625	02/02/2013	0.698151951	1.941199061	AAA	BRITAIN	150000000
STANDARD CHART	6.5	28/04/2014	1.930184805	1.846149	AA-	BRITAIN	200000000
EUROPEAN INVT BK	4.75	06/06/2012	0.038329911	1.235060738	AAA /*-	SUPRANATIONAL	3500000000
EUROPEAN INVT BK	6.25	15/04/2014	1.894592745	1.2298911	AAA /*-	SUPRANATIONAL	2550000000
COUNCIL OF EUROP IFFIM	2.5	11/12/2013	1.552361396	1.0428081	AAA /*-	SUPRANATIONAL	400000000
EUROPEAN INVT BK	3.375	15/05/2014	1.976728268	0.9703595	AAA	SUPRANATIONAL	250000000
EUROPEAN INVT BK	4.5	14/01/2013	0.646132786	0.76964361	AAA /*-	SUPRANATIONAL	3300000000
EUROPEAN INVT BK	2.875	07/03/2013	0.788501027	0.756777084	AAA /*-	SUPRANATIONAL	1775000000
EURO BK RECON&DV	1.875	10/12/2013	1.549623546	0.737338	AAA	SUPRANATIONAL	200000000
ASIAN DEV BANK	0.75	07/03/2014	1.787816564	0.6735664	AAA	SUPRANATIONAL	250000000
TREASURY	5.25	07/06/2012	0.041067762	0.658900293	AAA	BRITAIN	25612269000
TREASURY	9	06/08/2012	0.205338809	0.60695635	AAA	BRITAIN	5361525000
NETWRK RAIL INFR	2.5	07/03/2014	1.787816564	0.5834054	AAA	BRITAIN	1000000000
INT BK RECON&DEV	5.375	15/01/2014	1.648186174	0.578068	AAA	SUPRANATIONAL	250000000
NETWRK RAIL INFR	2.5	07/03/2014	1.787816564	0.5756705	AA Ae	BRITAIN	250000000
TREASURY	4.5	07/03/2013	0.788501027	0.285155341	AAA	BRITAIN	34518708000
TREASURY	8	27/09/2013	1.347022587	0.263280501	AAA	BRITAIN	8560000000
TREASURY	2.25	07/03/2014	1.787816564	0.255871675	AAA	BRITAIN	34863227000

Supranational - multilateral development banks defined as international financial institution having as one of its objectives economic development examples include European Investment Bank, European Bank of Reconstruction & Development, International Bank of Reconstruction & Development (World Bank)

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## Appendix A2

Short Name	Coupon	Maturity	Years from Today to Maturity Date	Bid Yield To Maturity	Fitch Rating	Country Full Name	Amount Issued
ABBEY NATL TREAS	5.5	18/06/2014	2.069815195	4.0887206	A+	BRITAIN	600000000
ROYAL BK SCOTLND	5.12	21/08/2012	0.246406571	3.456298598	A	BRITAIN	200000000
ROYAL BK SCOTLND	6.375	29/04/2014	1.932922656	3.2474548	A	BRITAIN	882777000
ROYAL BK SCOTLND	5.03	10/10/2013	1.382614648	3.246517726	A	BRITAIN	4200000
LLOYDS TSB BANK	6.375	15/04/2014	1.894592745	3.23319	A	BRITAIN	492113000
CIBA UK PLC	6.5	24/04/2013	0.919917864	2.556898101	A+	BRITAIN	300000000
BARCLAYS BK PLC	5	30/06/2014	2.102669405	2.4207127	A	BRITAIN	3000000
BARCLAYS BK PLC	4.5	30/06/2014	2.102669405	2.3960823	A	BRITAIN	2033300.049
BARCLAYS BK PLC	4	16/04/2014	1.897330595	2.365404252	A	BRITAIN	44422125
BARCLAYS BK PLC	5.2	07/04/2014	1.872689938	2.350339078	A	BRITAIN	3500000
BARCLAYS BK PLC	5.15	13/01/2014	1.642710472	2.294173286	A	BRITAIN	200000000

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## **The Economy and Interest Rates**

**Sovereign debt crisis.** 2011/12 was the year when financial markets were on tenterhooks throughout most of this period, fearful of the potential of another Lehmans type financial disaster occurring, sparked off by a precipitous Greek default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below panic levels. The final planks in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a “haircut” (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.

Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population. In addition, an impending general election in April / May 2012 will deliver a democratic verdict on the way that Greece is being governed under intense austerity pressure from the northern EU states.

**The UK coalition Government** maintained its aggressive fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

**UK growth** proved mixed over the year. In quarter 2, growth was zero, but then quarter 3 surprised with a return to robust growth of 0.6% q/q before moving back into negative territory (-0.2%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and dovish comments from the major western central banks: the Fed in America may even be considering a third dose of quantitative easing to boost growth.

**UK CPI inflation** started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT hike from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, falling further to 3.4% in February. Inflation is forecast to be on a downward trend to below 2% over the next year.

The Monetary Policy Committee agreed an increase in quantitative easing (QE) of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.

**Gilt yields** fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

**Bank Rate** was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. **Deposit rates** picked up in the second half of the year as competition for cash increased among banks.

**Risk premiums** were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

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