

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

22 February 2011 at 7.30pm

Members of the Committee present: Councillors P B Tuley (Chairman), J M Edwards, Mrs E Gill, C J Norman and A P Tollett

Members of the Committee absent: Councillors H A Butterfield, C J Chapman, Mrs R M Denby and Mrs L M Gillham

548. FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

549. NOTIFICATION OF CHANGE TO COMMITTEE MEMBERSHIP

The Group mentioned below had notified the Chief Executive of its wish that the change listed below be made to the membership of the Committee. The change was for a fixed period ending on the day after the meeting and thereafter the Councillor removed would be reappointed.

<u>Group</u>	<u>Remove From Membership</u>	<u>Appoint Instead</u>
Runnymede Independents	Councillor A M Moore	Councillor Mrs E Gill

The Chief Executive had given effect to this request in accordance with Section 16(2) of the Local Government and Housing Act 1989.

550. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors H A Butterfield, Mrs R M Denby and Mrs L M Gillham.

551. MINUTES

The Minutes of the meeting of the Committee held on 7 October 2010 were confirmed and signed as a correct record.

552. TREASURY MANAGEMENT STRATEGY, TREASURY MANAGEMENT INDICATORS AND ANNUAL INVESTMENT STRATEGY FOR 2011/12

The Committee considered a report that had been submitted to the Corporate Management Committee on 3 February 2011 on the Treasury Management Strategy, Treasury Management Indicators and Annual Investment Strategy for 2011/12, in accordance with the Council's governance arrangements, under which the Overview and Scrutiny Select Committee was the body responsible for scrutinising treasury management. The Corporate Management Committee had recommended to the Council that these items be approved. Reports would be submitted to the Committee and to the Corporate Management Committee in May or June on treasury performance for the previous financial year and interim reports would be made, where necessary, when changes to the strategy were proposed.

The Committee noted that Sterling Consultancy Services had been re-appointed as treasury management advisors for a three-year period from October 2010 after a competitive process. Sterling provided advice on all aspects of treasury management, including their own interest rate forecasts and continued to provide a good service that met the Council's needs.

£5 million of the Council's portfolio was invested in fixed term investments for a 2 to 5 year period in order to give a greater degree of certainty over the total yield that the portfolio would generate. It had also been agreed to use a manager specialising in cash and Tradition (UK) Limited had been appointed and had commenced the management of another £10 million of the Council's funds on 3 September 2007. The low interest rate environment, the reduction in cash available for long-term investment, and the lack of good opportunities to make long-term investments, had led to a re-appraisal of the arrangement with Tradition UK Ltd. Tradition was able to generate higher returns by using their knowledge of counterparties and, in particular, by using long-term investments. For short-term investments, Tradition was less able to generate significant out-performance. In the current interest rate environment, coupled with the reduction in the balances available to invest over the longer-term, the benefits that Tradition could offer were now limited. Therefore, the termination clause in the agreement with Tradition had been triggered and the arrangement would end in March 2011.

For long-term funds, the position would be radically changing because of the proposed reform of Council housing finance from April 2012. The reform would transform treasury management in Runnymede. If the Government proposals were in line with expectations, Runnymede would be allocated a significant debt in respect of its Council housing stock. Thereafter, Runnymede would become a net borrower of funds. The accounting and regulatory regimes for the management and control of the new housing debt were yet to be announced. Hopefully, the rules would not be unduly prescriptive and would allow the amount to be borrowed to be reduced and the Council to operate on the basis of its net indebtedness. The proposals would emerge and be refined throughout 2011. Treasury activities during 2011/12 would be focused on being best placed to take on the debt. These would include minimising the cost of debt and making best use of any flexibilities in the rules to enable treasury activities to be carried out on a holistic basis, if possible. The relevant strategies would be developed as details were published about the change. There were also other changes in the Localism Bill that affected the Housing Revenue Account. The Localism Bill, which had more than 200 clauses, was not expected to receive Royal Assent before November 2011.

The rules in the new Housing finance regime and, in particular, the flexibility they provided would be a significant element in decisions about the length of new investments especially any that matured after April 2012. In addition to the fundamental changes to Housing finance, the reduction in overall revenue and capital balances was an important constraint on long-term lending and the uncertainties over the timing of future capital receipts, and the possibilities of investing in rather than selling development sites, meant that the sums that could be prudently set aside for long-term investment needed to be revised downwards. Therefore, taking all these factors into account, it was proposed to reduce the limit on long-term investments from £7m to no more than £3million during 2011/12. This did not mean that this sum had to be invested in long-term investments. The decision on the appropriate term of an investment would continue to be a balanced judgement of all investment risks.

Only those authorities that had retained a housing stock would incur a debt as a result of the new Housing Finance arrangements, which replaced the current Housing subsidy system. This represented a return to the position before 1980 where Councils borrowed extensively. The Committee noted that, under current legislation, the Council could not transfer its housing stock unless it had gained the consent of its tenants. In the light of the previous views of the tenants on the question of stock transfer, the consent of tenants would be unlikely to be obtained, if at any stage the Council wished to transfer the stock. This reflected the high regard in which the Council as landlord was held by tenants. The Committee asked whether Officers would have the necessary skills to take on the management of debt. While there was already a considerable degree of expertise in dealing with this new area of work in the Finance section, the Committee considered that it would be appropriate for training to be arranged to enhance Officers' knowledge and agreed to recommend this to the Council. The debt which would have to be serviced would fall on the Housing Revenue Account. It was noted that it would be important to have a spread of borrowing that matched the periods when the borrowing would be repaid. The Committee suggested that contributory factors to the Council's financial position under the new Housing Finance regime might be the cost of borrowing and the extent of flexibility allowed in setting rents. Further detail on how the new system would operate was awaited.

In March 2010, the Council had agreed that it was prudent to recommence lending to foreign banks, but subject to higher credit criteria than UK banks and for short-term duration only. It had been suggested that this would offer the opportunity of making investments in the deposit accounts of the UK based banks that formed part of the Santander Group. However, the sovereign credit rating of Spain had been lowered shortly after the new strategy had been approved and since then the risk in

investing in foreign banks seemed to have increased, mainly reflecting concern over sovereign ratings. Given that security of funds was the main objective of the Council's treasury strategy, no investments had been made with foreign banks. However, for the sake of completeness, the Annual Investment Strategy allowed investments with foreign banks, but with much higher credit limits. Members had suggested that Officers might look at investing in foreign banks, where foreign bank assets were ring-fenced in the UK, e.g. Santander. Santander UK was a foreign bank, albeit with very strong interests in the UK banking sector and it was also a member of the UK credit guarantee scheme. The credit rating of Santander UK (and of Spain) currently met the criteria for making deposits, but on call only and for a maximum of £1m.

The estimate for 2011/12 was based on achieving an overall return on investments of 2%. This estimate assumed that the base rate would continue at ½% for an extended period. Under the current circumstances, the Council would predominantly rely on investments for short periods. There were some commentators who considered that the base rate might rise earlier and if this happened or the Council's cash flow forecast significantly changed it would be necessary to revise the investment income budget and report back to Members with proposals for further action. The Council had two long term investments, which were at higher rates. One of these matured in April 2011 and the other one ended in 2012.

The difficulties experienced in the banking sector and wholesale money markets since 2008 had been widely reported. Long standing banks and financial institutions that had recently been considered solid and good credit risks had come under pressure and some had failed, some had had to quickly merge with stronger banks and building societies, and many had had significant state support. This remained a worrying time. Runnymede Borough Council was treated as a professional investor and did not enjoy the protections offered to private investors. While also giving attention to liquidity and yield of investments, Officers would continue to place emphasis on the control of risk. The Corporate Management Committee had commended this approach and the Overview and Scrutiny Select Committee concurred. The Council had approved significant changes to its lending criteria since 2008. The Annual Investment Strategy would continue to permit use of a wide range of investment types and flexibility in counterparty limits. However, the use of this flexibility would be tempered by caution by Finance staff. The Overview and Scrutiny Select Committee agreed to recommend the approval of the Treasury Management Strategy, Treasury Management Indicators and Annual Investment Strategy.

RECOMMEND that –

- i) the proposed Treasury Management Strategy, Treasury Management Indicators and Annual Investment Strategy for 2011/12 be approved; and**
- ii) arrangements be made for the Council's Finance Officers to receive training in the management of debt.**

553. FUTURE ITEMS FOR THE COMMITTEE

The Committee considered the outcome of a survey of Members of the Committee to establish items for discussion in future meetings.

At the meeting of the Committee held on 7 October 2010, it had been agreed that all Members of the Committee would be asked to indicate their preferences for items for future meetings of the Committee, ranked in order from 1 to 10. It had not been possible to report the results of this survey to the December meeting of the Committee, as that meeting had been cancelled because of inclement weather. Officers had given a weighting to the responses received by the Committee Members of 10 points for a first preference, 9 points for a second preference, and so on. The results of this survey were noted by the Committee.

Four issues had received the highest scores under the weighting system. Three of these were firstly, the impact of revised funding arrangements on voluntary services in the borough, secondly, maximising income from the Council's asset portfolio, and thirdly, the likely response of various agencies in the event of a further major flooding incident occurring in the borough and/or the impact of the end of the linkage between local authority expenditure on flooding and Formula Grant so that the grant that the Council received was based on the length of ordinary watercourses. The fourth issue that had received a high score was the impact of key national initiatives on the borough, which

Officers had suggested might involve examining the progress of the Crossrail project and/or Heathrow Airport expansion.

The Committee agreed that the Air track scheme rather than the Cross rail project, might be discussed by them. It would, however, be appropriate to consider this at a later date, as the Air track public inquiry had been delayed. Heathrow Airport expansion was a possible topic for a future meeting. Another potential future matter for discussion was maximising income from the Council's asset portfolio. One option in considering this item might be to compare the approach of other Councils to maximising their asset income and to invite them to speak to the Committee about the methods and policies that they used.

The Committee agreed to receive a report at its next meeting in April on funding for voluntary organisations in the borough. It was agreed that it would be appropriate to deal with this issue at one meeting, rather than having a series of meetings on the subject, which would have required setting up extra meetings or a working group. A cross section of different types of voluntary organisations in the borough would be invited to speak. It was noted that the Council was not the only organisation that allocated resources to the voluntary sector in Runnymede. It was therefore agreed that Surrey County Council and the Primary Care Trust, both of whom provided funding for voluntary organisations, would also be invited to speak. The meeting would consist of verbal representations from the various outside organisations, and a report from Runnymede Officers, after which the Committee would formulate some conclusions and recommendations to be passed on to other Council Committees or other organisations, as appropriate. It would be important not to suggest that extra resources would be made available to voluntary organisations. The purposes of the meeting would include finding out what impact the Government's changes were having on the voluntary sector, to be advised of the pressures on the long term sustainability of voluntary sector organisations, to explore the approach of the Council, Surrey County Council and the Primary Care Trust to funding of the voluntary sector and to gather information which would inform the Council's decision making with regard to funding of voluntary organisations for future years.

The Committee considered whether it would be appropriate to examine the likely response of various agencies in the event of a major flooding incident occurring in the borough, which might include an analysis of the insurance position for properties in areas at risk of flooding. The Committee noted that its predecessor bodies had in the past examined the response of agencies after flooding incidents had occurred in the borough. The Committee concluded that it would, however, receive a report at its meeting in July on the impact of the end of the linkage between local authority expenditure on flooding and Formula Grant, which was a new funding measure introduced by the Coalition Government. This meant that the grant that the Council now received for flooding was based on the length of ordinary watercourses. This represented a severe reduction in resources available to Runnymede for work on flooding. Speakers would be invited, as appropriate, to the Committee's July meeting, to advise the Committee on this issue.

Chairman

(The meeting ended at 8.50pm)