

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 24th November, 2008

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PART I **FOR CONSIDERATION & COMMENT**

PERFORMANCE, FINANCIAL & HR REPORTING FOR 2008/09

1 Purpose of Report

This report highlights the Council's overall performance from deliver of service to financial management. This month the report focuses on performance management, the latest Human Resources statistics, the revenue monitoring position, the capital monitoring programme to September 2008, a financial systems update and central debt management for the Council

This report also informs the Committee of the Council's deposit of £2.5m in Heritable Bank, now in administration, actions already taken and further actions proposed to adjust the Treasury Management Strategy in light of the current Money Market turmoil.

Also included is the Annual Report to Members on the performance of the Investigations and Overpayments Unit, in line with the recommendations of the KPMG report on "Countering Benefit Fraud"

2 Recommendation(s)/Proposed Action

The Committee is invited to comment on the following recommendations to Cabinet -

- a) That the following aspects of the report be noted:
 - i. Performance
 - ii. Debt Recovery
 - iii. Human Resources
 - iv. Financial performance – revenue and capital
 - v. Investigation Annual Performance
- b) That the virements highlighted in the report be approved.
- c) That the proposed amendments to the Treasury Management Strategy for 2008-09 be approved.
- d) That the forecast surplus for 2008-09 investment income is initially set aside to fund the potential write off.

e) That the Cabinet note the current turmoil in the Money Markets and the actions taken by officers in response to the current market conditions.

f) Members are asked to approve the revised budget.

g) To agree to the engagement in the Census pilot in light of its importance to Slough.

3 Key Priorities – Taking Pride in Slough and Making a Difference to Communities

The budget is the financial plan of the authority and as such underpins the delivery of the Council's key priorities through the financial year.

Performance and budget monitoring throughout the financial year reflects on whether those priorities are being met and, if not, the reasons why, so Members can make informed decisions to ensure the Council remains within its available resources.

The treasury management strategy and policy ensure the treasury management activity makes a significant contribution towards balancing the General Fund Revenue budget.

The Investigation Team works closely with various other local and national agencies. All enquiries are carried out in strict compliance with the relevant legislation. In addition, the Team seek to raise awareness of counter fraud across the Authority.

Housing Benefit is provided to people on low income to support them in their own homes. It is therefore important that these benefits are efficiently administered and fairly distributed. All anti-fraud staff are required to advise customers of their entitlement to other welfare benefits, thus reminding people of the Council's policy to encourage benefit take up. Officers from the Investigation Team regularly brief members of representative groups on the work of the Team.

4 Other Implications

(a) Financial

These are contained within the body of the report.

Effective management of the Housing Benefit system reduces the cost burden of the local taxpayer. The Council is reimbursed by Central Government for the value of benefits correctly paid.

(b) Human Rights & Other Legal Implications

While there are no Human Rights Act implications arising directly from this report, the Authority is required to set and maintain an adequate level of balances. The Council operates within a legislative framework in the recruitment, employment and management of its workforce. The provision of workforce information ensures that our performance in areas can be monitored at a strategic level across the organisation.

Housing and Council Tax Benefit administration is governed by detailed statutory requirements.

All counter fraud enquiries and operations are carried out in compliance with the Human Rights Act, the Regulation of Investigatory Powers Act, Police and Criminal Evidence Act, and the Criminal Procedures and Investigations Act. The procedures developed from this legislation have been validated by the Council's Legal section

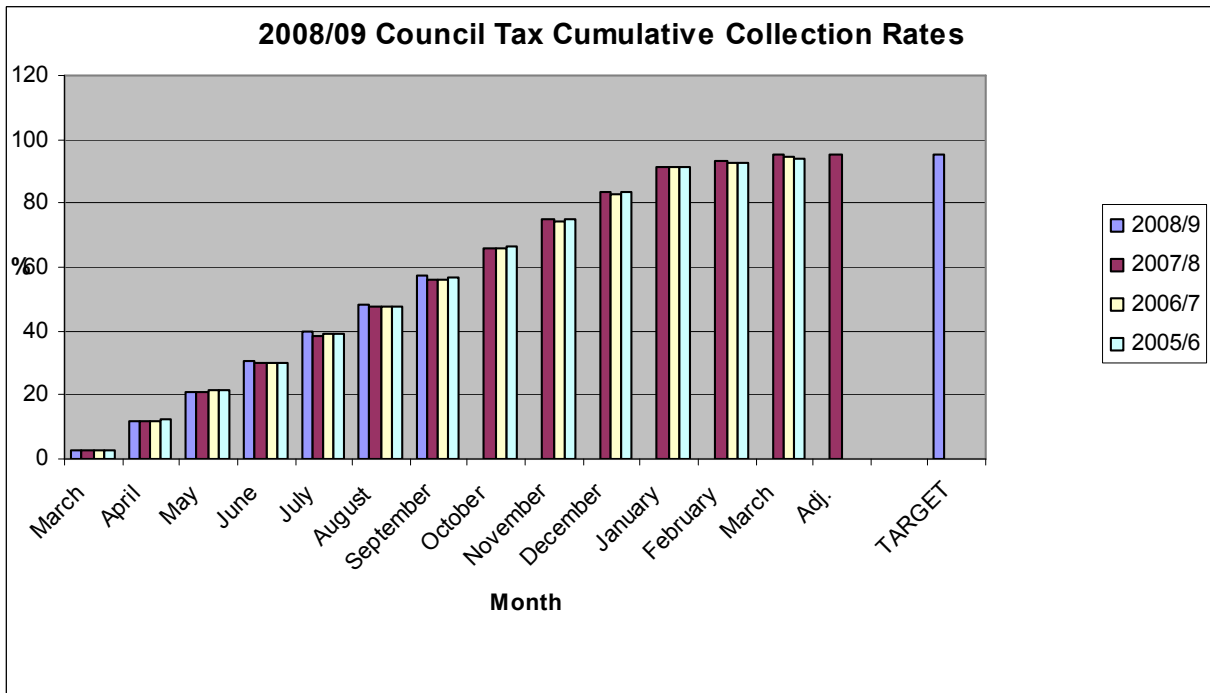
5 Supporting Information

Performance Management

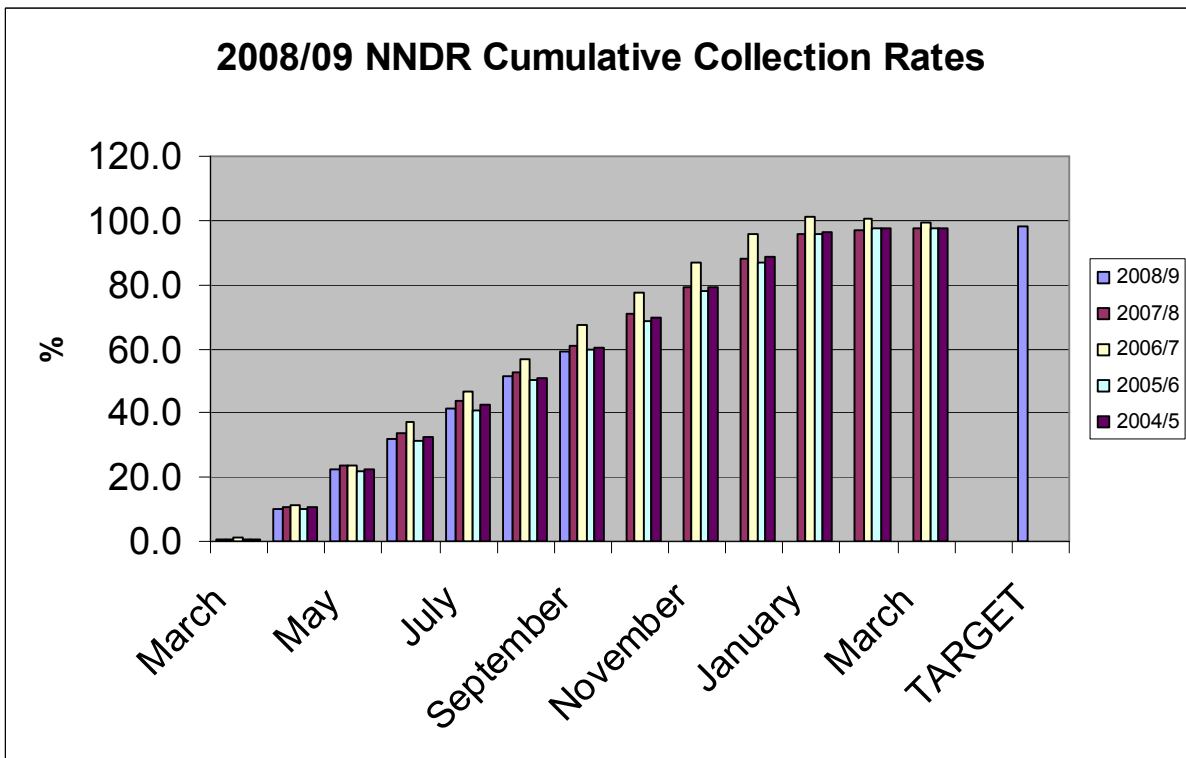
- 5.1 The 198 indicators in the new National Indicator Set will be collected and performance managed through PB Views Performance Management System which is being used by local authorities within Berkshire. The new National Indicator Set replaces the previous Best Value Performance Indicators. The LAA (Local Area Agreement) indicators have been selected from the National Indicator Set and agreed by GOSE. The agreed list was published at the end of May. The Council will be assessed against its performance against all 198 indicators through the Use of Resources Assessment.
- 5.2 Officers have collated data to establish second quarter performance against the National Indicator set (where possible) or establishing baseline targets for future reporting purposes. Information is also provided regarding the performance against the LAA targets. The second version of the report is attached for Members information in Appendix A.
- 5.3 The Council wide Balanced Scorecard produces inform for Members of the Councils overall performance in critical service areas.
- 5.4 The report shows that the overall performance across the Council is good with 23 of the chosen indicators appearing as green. The increase in the number of red indicators is mainly due to baseline data being provided for the first time so no comparison or improvement can be identified.
- 5.5 It is intended to use this report to highlight areas where performance may need improvement and proposed corrective measures to address such issues. Officers are currently aligning the budget setting and business planning process and a revised approach to service planning will be introduced.
- 5.6 A report detailing the Best Value Performance Indicator outturns for 2007/08 was published on June 30th and is available in the members' room. Alternatively a copy can be obtained from the Policy and Performance Team.

Debt Recovery

- 5.7 This report gives a quarterly updates on the Council's overall debt position, focusing on Council Tax and Business Rates collection, and the Accounts Receivable Ledger.



5.8 Council tax collection is showing an improved position for this time of year compared with previous years, coming in at 57.4% by the end of September 2008. This year's performance is the highest single in year collection rate, so if this trend continues will result in an improved final position, although the current world economic situation may impact on individuals ability to pay.



5.9 The slight slow down in NNDR collections this period, as highlighted in last month's report appears to be continuing as compared with the previous two years. This may be due to resistance to the change in legislation for 2008/09 regarding the payment of full rates for empty premises.

- 5.10 This has resulted in the amount of net collectable debit increasing by £13m from the previous year. This continues to place a significantly increased burden on the team and officers are reviewing the actions that can be taken to try and turn this situation round.
- 5.11 With respect the Accounts Receivable system, the Council currently has outstanding debts of £4.3m at the end of September.
- 5.12 Of the outstanding debt approximately £2.8m is less than 74 days overdue and approximately £780k is older than 375 days.

Human Resources

- 5.13 The Council collects vital HR information in support of the development of policies, practices, systems and approaches to: be an employer of choice; be a learning organisation; and ensure employee well-being and safety as well as influencing the development of management capability and capacity. In addition the results are used for external benchmarking and BVPI purposes.
- 5.14 Appendix C of this report sets out the HR quarterly statistics for quarter 1, 1st April – 30th June 2008. The figures are based on council employees only, and therefore exclude school employees.
- 5.15 It should be noted the establishment of the Resources and Improvement and Development Directorates has led to a number of services coming together under these new directorates and known changes have been built into the development of this quarter's statistics. This means that it is more difficult to make meaningful comparisons against previous years at directorate level as it is no longer possible to compare like with like. It is also recognised that staffing structures will be developed further over the coming months and that changes are likely to arise which will further distort staff groupings making comparison with previous years even more difficult.
- 5.16 Work continues to data cleanse the information system to ensure that surplus posts are deleted. Additionally a data check exercise is currently in operation requesting staff to update personal data to ensure that the information we hold on staff is correct.
- 5.17 On occasion it is necessary to make a retrospective adjustment to any particular quarter's statistics after preparation and reporting to ensure that delayed returns are incorporated to maintain accurate statistical information. This may lead to slight variation between figures reported at a particular point in time and subsequent references.
- 5.18 In relation to this quarter's statistics areas to particularly note include.
- 5.19 **Turnover** is 0.5% lower for quarter 1 (1.7%) compared with the same quarter last year (2.2%). This may be because of the continued restraint in making appointments, particularly within central services where a 3 month vacancy lag continues to be in operation. The outcome is that the usual peak of starters in April has not materialised but has been delayed until June, such that overall staff numbers have increased. If turnover trends continue unchanged throughout the year it is projected that there will be a 0.3% decrease in turnover compared to last year.

- 5.20 Further information is being provided in respect of leavers. Information regarding voluntary leavers (used to calculate turnover) is now being supplemented by further information on all leavers by showing terminations for reasons other than voluntary resignation.
- 5.21 **Sickness Absence** – Sickness levels per FTE are 0.5 days lower than for quarter 1 last year with a projection of 0.8 days less for the year subject to sickness levels remaining unchanged. Absences attributable to infection continue to be highest cause of sickness absence whilst stress absence has remained constant from the last quarter. The HR Business Partners in conjunction with Managers have continued to target areas of high sickness absence through greater occupational health referral and also through formal reviews as part of the sickness absence procedure. The management of stress within the organisation and methods for improving overall staff well-being is considered by a working group focusing on these aspects under the auspices of the Corporate Health and Safety Working Group.
- 5.22 **Workforce Profile** – The number of staff from BME backgrounds has continued to rise with this quarter showing a rise of 0.3% (to 39.1% from 38.8% in quarter 1 last year of those declaring ethnicity) spread across the categories. The gender breakdown of the staff has remained relatively stable at 70:30 in favour of females which is typical of local government nationally. The number of staff declaring a disability has continued to rise to 5.7% from 5.4% as at quarter 1 last year. Our staff age profile continues to show a standard distribution rather than the skew towards older workers often seen within local authorities and we continue to make improvements in the numbers being retained at age 60 plus.
- 5.23 The workforce profile continues to show year on year improvements towards being representative of the community that the Council serves, however, in viewing these figures it is important to be mindful that in many categories small numbers are being recorded and one person starting or leaving can make a dramatic positive or negative change.

Financial reporting

5.24 The Council's 2008/09 net revenue budget is £98m. This excludes the schools' budget of £89m which is funded through the Dedicated Schools Grant.

5.25 A number of the Council's services are demand led services for which budgets for 2008-09 have been set on known placements and client activity at a point in time. Clearly these areas are subject to constant review as client levels change and thus subject to pressures that are not directly controllable. As we head into the winter quarter there is likely to be an impact in particular around Adult Social Care services.

Revised budgets

5.26 The 2008/09 was approved by Members in February 2008, which was prior to the Council restructure. To reflect this, the Budget book was kept at a high level across Services with an expectation that a revised budget book would be produced once the re-structure had been completed. The revised budget book has now been prepared and copies have been issued to Commissioners and Party Leaders; it is also available in the Members Room and on the Web. Members are asked to approve the revised budgets which are set out in the appendix.

Projected Outturn Position at 30th September 2008

5.27 Currently there is a projected overspend by Directorates of £400k. This is a reduction of some £220k from the £620k variance previously being reported to Cabinet in October 2008. Treasury are reporting savings of at least £1m but the Corporate pressures have increased by £1m to £1.91m making a total predicted overspend of £1.31m. The Projected Outturn position is analysed in Table 1 below.

Table 1 - Projected as at 30th September 2008

Directorate	Current Budget B	Projected Outturn C	Variance Over/(Under) Spend D = C - B	Variance Over/(Under) Spend Cab (30.10.08)	Movement
	£'M	£'M	£'M	£'M	£'M
Education and Childrens Services	25.24	24.71	(0.53)	(0.26)	(0.27)
Community and Wellbeing	30.99	31.43	0.44	0.55	(0.11)
Green and Built Environment	25.48	25.82	0.34	0.18	0.16
Central Directorates	23.82	23.97	0.15	0.15	(0.00)
Total Cost of Services	105.53	105.93	0.40	0.62	(0.22)
% of revenue budget over/(under) spent by Services			0.38%	0.59%	
Treasury Management	(1.63)	(2.63)	(1.00)	0.00	(1.00)
Contingencies & earmarked reserves	2.21	2.21	0.00	0.00	0.00
Corp pressures and savings	0.00	1.91	1.91	0.91	1.00
Area Based grant	(7.56)	(7.56)	0.00	0.00	0.00
Total	98.55	99.86	1.31	1.53	(0.22)
% of revenue budget over/(under) spent in total			1.33%	1.55%	

5.28 Full details of variances to budgets by Directorates are set out in Appendix D to this report.

Movement in Variances Month on Month

5.29 **The Directorate of Education and Children Services** are reporting an increase in their underspend of £265k to give a net under spend of £529k. There are movements in variances across all their services but the most significant are:

- Children & Families – Savings within the Children Looked After and Other C & F Service sections (£121k) offsetting pressures within Commissioning & Social Work, Family Support Services and Asylum Seekers sections (£105k);
- Youth – £25k under spend is expected due to a delay in recruitment and the outcome of the 2009/10 PPRG budget build process;
- Inclusion – £58k Savings have arisen as a result of the withdrawal of a Voluntary Organisation for the second half of this financial year and the delay in Health Worker appointments;

- Raising achievements – Savings are expected due to a reduction in the number of applications for Home to School Transport for the 2008/09 Academic Year;
- Resources, Commissioning & Performance – £49k Savings have been achieved by incorporating the cost of an annual license within an existing SLA and revised estimates of £23k for Premature Retirement and Dismissal Costs and savings of £50k for the Assessment Centre.

5.30 **Community and Well Being**, the Directorate's overspend position has fallen by £106k, mainly in the Adult Social Care area.

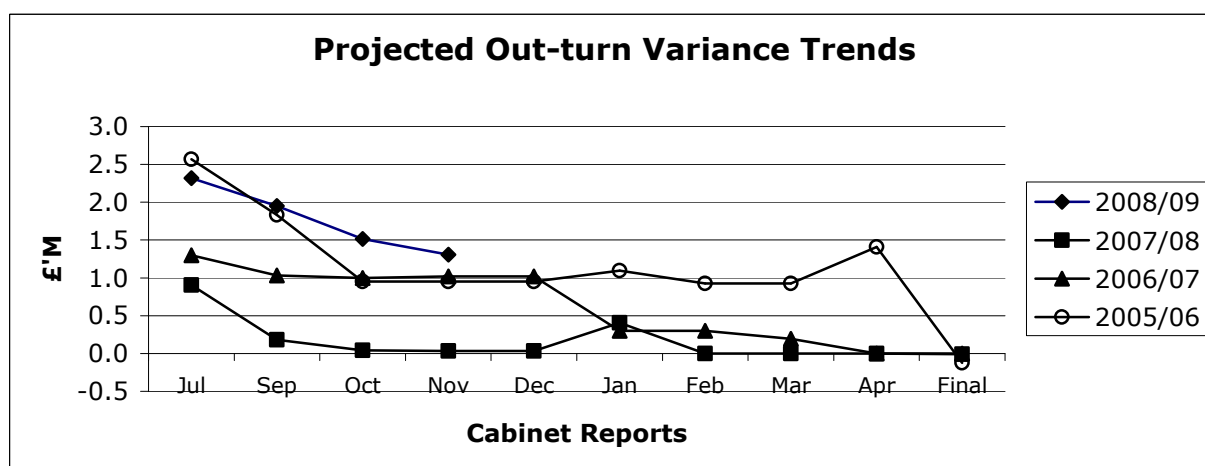
5.31 **Green and Built Environment** are showing an increase in their overspend of £165k, due to increased pressure on the Concessionary Fares Scheme, as has been highlighted in previous reports.

5.32 **Central Directorates** are reporting an overspend of £146k showing no change from the position reported last month.

5.33 In previous monitoring reports, Treasury Management have been flagging potential savings to be delivered during 2008/09. The actual figures depend on the finalisation of the capital programme, in particular focussing on the areas where capital receipts may no longer be delivered in the short to medium term. Officers are reviewing the need for advanced borrowing in anticipation of capital receipts being delayed by at least 2 years. At this stage it is prudent to declare savings of £1m.

5.34 Corporate pressures have increased this month due to the inclusion of a sum in respect of the Icelandic bank issues. While the loan was for £2.5m, it is prudent to include a sum of £1m as unrecoverable. An update will be included as part of the report to Members later this month.

5.35 Figure 1 below illustrates the trends in Projected Outturn reported to Cabinet since July 2005/06. The actual variance is high for this period as can be seen from the graph but the trend is similar to the position at this point in time in previous years.



5.36 Directorates continue to work on their action plans to contain pressures by the year end. The Strategic Director of Resources is currently reviewing whether some tighter spending regimes are required to ensure this is the outcome.

Virements

5.37 In accordance with the Financial Procedural rules, approval to virement requires the consent of officers and Members.

5.38 Members will this month be asked to approve the following virements which mainly relate to the release of contingencies and earmarked reserves.

Description	Value £
LABGI Reserve: Community Warden Posts	60,000
LABGI Reserve: Walkabouts & alley gating	190,000
LABGI Reserve: Ward Schemes	350,000
LABGI Reserve: Weekly Recycling	150,000

5.39 The position half way through 2008/09 leaves an overall pressure for the Authority of £1.3m which needs to be contained by the year end. The Strategic Director of Resources is sending an email to all officers requesting a further cut back of all non essential spend.

5.40 Once Members have agreed the savings options for 2009/10, Officers will be asked to review these savings to identify any that can be implemented during the later months of 2008/09.

Treasury Management Strategy & Policy

5.41 Council's treasury management strategy and policy statement are approved annually by the Council and set out the framework for the conduct of the treasury management activities. Both the strategy and the policy statement are guided by:

- a. Guidance formally issued by the Secretary of State under Section 15(1)(a) of the Local Government Act 2003,
- b. CIPFA's Code of Practice on Treasury Management, and
- c. CIPFA's Prudential Code for Local Authority Capital Finance

5.42 The treasury management policy statement defines the treasury management activities as "the management of the Council'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".

5.43 The treasury management makes a significant annual contribution towards the General Fund Budget and thus provides support towards the achievement of the Council's business and services priorities. In 2006-07, the gross investment income was £7.7M and the estimated forecast for 2008-09 and 2009-10 is £6.9M and £5.8M respectively.

Cash Flow Management

5.44 At any point in time, the Council has significant amounts of cash flow that is not required to pay the bills immediately. The cash flow comprises of a number of items, both revenue and capital, amongst which are:

- Council tax and business rates collected from April to January each year
- Revenue balances to cope with in year contingencies
- Ear marked reserves for known liabilities that have yet to be settled

- Capital receipts and grants yet to be applied to finance capital expenditure
- Capital borrowing carried out in advance to finance planned capital expenditure
- Accumulated reserved capital receipts from the previous capital legislation which can only be used for either early repayment of existing debt (subject to premiums/penalties), to substitute borrowing for new capital expenditure or to invest to earn a return to reduce the overall borrowing costs (and Council Tax)

5.45 The actual level of cash deposits held as at 1st April 2008 amounted to £124.5M and £131.4M as at 31st October. This is currently forecast to reduce to £117M towards the end of March 2009 as the capital expenditure normally peaks in February/March and the regular Council Tax and business rate payments finish in January.

5.46 As part of the Council's overall management of cash flows, risk is managed by placing funds with different financial institutions i.e. not all funds deposited with any one or few institutions. Funds are deposited for varying periods depending on future cash flow requirements and its security, principally in the form of credit rating accorded to the individual financial institution by Fitch credit rating agency. Not all building societies have sought credit rating and therefore the current approved treasury management strategy restricts the list to top 30 building societies (out of 59) ranked by value of assets.

5.47 The investment regulations permit the Council, subject to liquidity considerations, to invest for longer than 12 months. The Council's approved strategy allows for these investments as part of a balanced portfolio and thus manages the interest rate risk when the interest rates fall.

Icelandic banks

5.48 As part of day to day treasury management activity, £2.5M was deposited with Heritable Bank on **22nd March 2007** for a fixed period maturing on 22nd March 2011 with interest payable annually. The length of the fixed deposit period was longer than normal but was in accordance with the approved treasury management strategy to invest part of the cash flows for longer than 1 year to mitigate against the risk of expected fall/s in base rates. The deposit was placed well before the onset of the current money market turmoil.

5.49 Heritable Bank was established in 1877 and was acquired by Landsbanki of Iceland in 2000. The bank specialised in property and asset finance and providing short term working capital for professional firms. At the time of placing the deposit, the bank was rated "A" for long term credit and "F1" for short term credit. The Fitch credit rating scales are as follows:

Long Term Rating

AAA - Highest Credit rating denoting the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events. *In UK, only the Bank of England and the European Bank for Reconstruction and Development has been accorded this rating.*

AA - Very high credit quality denoting expectations of very low credit risk with very strong capacity for payment of financial commitments which is not significantly vulnerable to foreseeable events. *Mainly the UK clearing banks who in normal financial circumstances would not deal with deposits of less than £5M per transaction.*

A - High credit quality with expectations of low credit risk and with strong capacity for payment of financial commitments. This capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB, BB, B, CCC, CC,C and D - These rating scale indications range from good credit quality to speculative and default.

Short Term Rating - less than 365 days

F1 - Highest credit quality with strongest capacity for timely repayment

F2 - Good credit quality with satisfactory capacity for timely repayment

F3,B,C,D - Ranging from fair credit quality to speculative and Default

- 5.50 Although the credit rating of Heritable Bank and its parent company, Landsbanki was maintained at "A" until 30th September 2008, Heritable Bank was removed from the Council's counter party list in January 2008 i.e. that no further deposits would be placed, based on press reports regarding Iceland's deteriorating economic and financial position. Landsbanki was never put on the Council's list of counter parties. As the existing deposit of £2.5M with Heritable bank was for a fixed period, it was unlikely that the Bank would have agreed to an early repayment and even if it had, it would have been subject to significant penalties.
- 5.51 On 7th October, Icelandic Financial services Authority took control of Landsbanki. As a result, the UK Financial services Authority (FSA) applied for and was granted an Administration Order in respect of Heritable Bank to ensure financial stability and to protect the bank's assets (and liabilities). Ernst & Young were appointed as the administrators. All wholesale deposits including the Council's deposit of £2.5M together with accrued interest since 22nd March 2008 are as a result currently frozen.
- 5.52 In a joint statement issued on 14th October via the Local Government Association, the Administrators said "that they could not currently give an estimate of the level of funds expected to be recoverable, nor when any payout could be expected". The Administrators went on to advise that "in broad terms, the book value of the assets of Heritable Bank appeared to be of the same order of magnitude as the liabilities but that recoveries for the Local Authorities would be dependant on the final level of realization". The Administrators will provide a further update in November.
- 5.53 In their letter dated 13th October, the Administrators state that "All wholesale / commercial deposits, mortgages and loans remain with the Company. Whilst in Administration, the Company will continue to manage its mortgage and current loan book and we will seek purchasers for, and will continue to manage the remainder of the Company's business and loan book to maximise recovery for creditors".
- 5.54 It is therefore likely that in time the Council will be able to recover most, if not the full amount. At the very worst, if the full amount is not recovered, there will be a write down against the Council's reserves. The current average rate on the Council's deposits is higher than that assumed for the 2008-09 budget and therefore it is expected that the treasury management income budget target will be exceeded.

5.55 The Cabinet is requested to consider setting aside part of the forecast surplus to meet any potential shortfall on the Heritable Bank deposit.

5.56 Icelandic FSA had taken control of Glitnir Bank on 30th September and on 8th October took control of the third Icelandic Bank, Kaupthing Bank who also owned Kaupthing Singer and Freedlander, a UK registered bank which was placed into administration by the UK FSA. Glitner and Kaupthing Banks were not on the Council's list of counter parties. Kaupthing Singer and Friedlander was removed from the list on 23rd January 2008.

Impact on the Public Sector

5.57 Figures released by Local Government Association (LGA) indicate that as of 17th October, 123 LGA member Council's had deposited £920M in Icelandic banks and their UK licensed subsidiaries. The individual authority deposits range from £1M to £50M.

5.58 Amongst the non-LGA members with deposits are Transport and Police authorities and the Audit Commission with deposits of £10M.

UK Government Response

5.59 The UK Government has frozen assets of the Icelandic banks (Glitner, Landsbanki and Kaupthing banks. Heritable and Kaupthing Singer and Freedlander were UK registered and regulated and placed into Administration) primarily to safeguard the deposits held by individuals. A Treasury delegation, including officials from the Bank of England and the Financial Services Authority had been sent to Iceland to seek assurances for UK savers and establish a claims procedure. The delegation also pressed for the quick return of the local authority and other public sector deposits. However, the Icelandic economy is itself on the brink of collapse and the Icelandic Government is in the process of seeking emergency help from the International Monetary Fund to stabilise the economy.

5.60 With regards to the UK local authorities, despite lobbying by the Local Government Association (LGA), the UK Treasury response has been muted with no offer of direct financial support at the moment. Officers believe this is partly due to treatment of local authority deposits as "wholesale deposits" i.e. outside the financial compensation scheme and partly because lots of private sector institutions have deposits frozen in the Icelandic banks.

5.61 Instead the Government is focusing on providing financial experts to those local authorities facing immediate cash flow problems. A joint statement issued on 15th October by the Government and the LGA indicates that 13 Councils have indicated that they may face short term cash flow difficulties with financial experts already sent to 3 of those Councils. Officers' view is that if the local authorities do eventually have to write off the deposits or part there of, the Government support is likely to be in the form of capitalisation directions allowing Councils to spread the cost over a period of years. However, financial support in any form is yet to be confirmed by the Government.

Global Impact of Credit Crunch and Response

5.62 The current financial markets crisis has been termed credit crunch and although it started in the USA, the ramifications have been felt globally. Following the collapse of Lehman Brothers in September, America's fourth largest investment bank, banks across the world became increasingly reluctant to lend to each other as they lost

confidence in the ability of banks to repay the loans. As a result, central banks and governments across the globe have had to take actions by providing new capital and/or liquidity to their banks to prop up the banking systems.

- 5.63 In the UK, the Government has made available £50billion to re-capitalise the banks, injected liquidity of £200billion into the banking system and provided guarantee of £250billion on new debt to support banks lending. The capitalisation facility is subject to stringent conditions i.e. payment of dividends and executive remuneration and are available to all UK banks and building societies. To-date, Royal Bank of Scotland, Lloyds TSB and Halifax Bank of Scotland (HBOS) has taken up the capitalisation facility. Lloyds TSB is also to take over control of HBOS.
- 5.64 In Europe, a similar facility totally EUR780billion has been made available. In addition, some national Governments such as the Irish Government has provided guarantee for all deposits in certain Irish banks and building societies until 28 September 2010. In Germany, Hypo Real Estate Group, of which Depfa bank is part of, has been provide with a short term credit facility of EUR50billion by the German Government and financial institutions which is due to be implemented by mid-November. Until this facility becomes operational, the German Financial Markets and Stabilisation Fund on 30th October granted Hypo Real Estate EUR15billion facility on a short term maturity.
- 5.65 Elsewhere, amongst those national governments who have either provided guarantees or liquidity to their banking systems include Australia, United Arab Emirates, Saudi Arabia and Kuwait.

Actions Already Taken

- 5.66 As part of the Council's treasury management policy, day to day treasury activity is managed by the Head of Treasury with the Treasury Management Panel (TMP) comprising of Strategic Director of Resources, Assistant Director of Resources (Accountancy) and the Head of Treasury overseeing the overall conduct and management of treasury management functions. TMP normally meets quarterly but if required can meet on an ad-hoc basis as and when required.
- 5.67 The Council is lobbying and will continue to lobby the Government via the LGA.
- 5.68 The Council has lodged a claim with the Administrators of Heritable Bank for the return of £2.5M deposit plus accrued interest since 21st March 2008.
- 5.69 As part of the monitoring process, TMP had already agreed the following amendments to the counter party list:
- 5.70 Reduced the building society sector from top 30 to 25 – December 2007
- 5.71 Suspended/removed from the list or reduced lending limits (some had existing investments at the time which were left to mature):
- Dexia Bank, Bradford & Bingley – September 2007
 - Heritable Bank – January 2008
 - Kaupthing Singer & Friedlander – January 2008
 - Irish Banks and Building Societies – June 2008
 - Alliance & Leicester, Egg Bank, MBNA, UBS – June 2008

The Current Treasury Management Policy

5.72 Under the current approved policy, the Council only uses banks with minimum long term credit rating of “A” and short term rating of “F1”, in addition to the top 25 building societies (as amended by the TMP in December 2007). The current investment limits for individual financial investments are as follows:

- i) Gilts - £10M
- ii) Clearing Banks and Financial Institutions rated A/F1 - £10M
- iii) Top 10 Building Societies (unless rated A/F1) - £7.5M
- iv) Building Societies ranked 11-25 - £6M
- v) Money Market Funds - £6M
- vi) Clearing Bank Subsidiaries & those rated A/F1 - £6M

5.73 In his recent speech, the Governor of the Bank of England stated that “not since the beginning of the First World War has our banking system been so close to collapse”. The Bank of England’s latest half yearly Financial Stability Review stated that “the instability of the global financial system in recent weeks has been the most severe in living memory”. It is not certain yet if the quantum action taken by all the central banks and Governments has resolved the underlying causes of the current financial turmoil. It is probably too early to make a judgement. It is therefore only natural to review the existing investment policy strategy and guidelines to mitigate further the level of risk exposure in the short term while the financial markets stabilises.

Proposed Changes to the Treasury Management Strategy

5.74 Any change to a strategy takes time to fully implement. Most of our deposits are for a fixed period and therefore any proposed change will have to be implemented over a period of time. The table shows the current deposit maturity profile.

Period	Amount Maturing £'000	Average Investment Rate	Proportion of Total Investments
Call Account	588	4.50%	0.4%
November 2008	12,400	5.80%	9.4%
December 2008	12,500	5.84%	9.5%
January 2009	20,800	5.83%	15.8%
February 2009	11,100	5.68%	8.4%
March 2009	13,000	6.10%	9.9%
April 2009	6,000	6.09%	4.6%
May 2009	4,300	6.28%	3.3%
June 2009	7,200	6.51%	5.5%
July 2009	5,000	6.58%	3.8%
August 2009	3,500	6.36%	2.7%
September 2009	8,500	6.48%	6.5%
October 2009	3,300	6.53%	2.5%
January 2010	4,000	5.22%	3.0%
May 2010	2,000	6.47%	1.5%
July 2010	3,000	6.77%	2.3%
September 2010	3,000	6.25%	2.3%
November 2010	2,000	6.25%	1.5%
March 2011	6,500	5.99%	5.0%
July 2011	2,700	7.02%	2.1%
Total	131,388	6.12%	100

5.75 Merits or otherwise of alternatives to current strategy of cash deposits are considered below:

Gilts

5.76 Gilts are bonds issued by the Government for varying periods ranging from up to 5 years (known as short), up to 15 years (medium) and in excess of 15 years (long). Gilts can be bought and sold in the Gilts market only by authorised dealers. The Council will have to appoint Fund manager to manage the Gilt portfolio as the Council cannot itself directly trade in Gilts nor do we currently have in-house expertise.

5.77 Although Gilts are perceived to be the safest form of investment i.e. no Government default, there are inherent risks in the form of Gilts price/value and yield i.e. interest rate. The value of Gilts can change on a daily basis (up or down) which will have a direct impact on the yield. At the moment, as the demand for Gilts has been very high, the value of Gilts is also very high with corresponding lower yield. The public sector borrowing requirement has and will increase as the economy moves into the recession, the Government will have to issue new Gilts which is expected to result in fall of the Gilt's value. The table below compares the returns achieved from cash deposits against the average annual short Gilt yield over the past 10 years and shows that the total return from cash deposits exceeded the Gilts by £4.5M.

Financial Year	Equated Investment Balances £'000	Average Annual Deposit Rate	Average Annual Short Gilt Yield	Deposit Rate Excess / (Deficit) £'000
1998-99	81,754	7.33%	5.17%	1,767
1999-2000	81,611	5.79%	5.72%	56
2000-01	75,107	6.28%	5.55%	548
2001-02	81,316	5.11%	5.03%	70
2002-03	75,283	4.03%	4.55%	(396)
2003-04	89,167	3.73%	4.35%	(558)
2004-05	93,740	4.72%	4.79%	(73)
2005-06	85,143	4.75%	4.29%	394
2006-07	92,194	4.89%	4.88%	14
2007-08	130,334	5.92%	4.95%	1,269
Sept 09	105,509	6.03%	4.67%	1,432
Total				4,523

Debt Management Account Deposit Facility (DMADF)

5.78 The Debt Management Office at the Bank of England introduced the DMADF in 2002 and the Council initially used this facility during 2002-03 and still has access to this facility. At the moment, it is probably the safest place for deposits. Recent reports suggested that Local Authorities had deposited a total amount of £10billion since the current financial market turmoil started. However, the interest paid by DMADF is normally below the Base Rate and due to the current high demand, the rate being offered is between 1% and 2% below the base rate. Assuming no change to the current base rates, full-year deposits in DMADF would have resulted in reduced investment income of £2.7M in 2008-09 and estimated £1.28M in 2009-10.

Money Market Funds (MMFs)

5.79 MMFs were first introduced in the USA in 1970s and crossed the Atlantic in 1980s. They are short-term open ended i.e. no fixed maturity date investment products managed by fund managers. The main characteristics are that the money is invested in only AAA rated companies and instruments such as time deposits, certificate of deposits, short term government bonds, bank bills etc. The fund manager limits its exposure to any one counter party to a maximum of between 5% and 10% of the total value of the fund. Individual MMFs are independently rated by credit agencies and have to retain credit rating of AAA. The yield achieved is typically 7 day London Interbank rate and will therefore normally be lower than what the Council can achieve on average 3 month deposit rate. The latest six monthly bench mark average returns for MMFs is 4.47% compared to Council's current average investment rate of 6.07%, equivalent to £2.04M in cash terms in a full year.

Fund the Capital Borrowing Requirement by Reducing Cash Deposits

5.80 The Council's current approved borrowing strategy takes into account various factors such as the overall capital borrowing requirement, general cash flows, current and future forecast of long term interest rates. One of the main objectives of the borrowing strategy is to minimise revenue costs to the Council. Public Works Loan Board long term rates normally increase as the Public Sector Borrowing Requirement increases. This is a simple matter of supply and demand for Gilts. With the economy likely to go into recession, if not already done so, and the long term forecast of downward pressure on inflation, the Bank of England reduced the base rates by 1.5% to 3.0% on 6th November. Some market commentators have forecast base rate reduction to 2% by the end of 2009. The London Interbank Offered Rate (LIBOR) has shown signs of gradual fall since the Government announced the bank capitalisation package.

5.81 The overall impact of the above is that the Council's investment income will fall but the long term borrowing costs will increase. To address this situation, it would be advantageous for the Council, where possible, to meet the remaining capital borrowing requirement of £21M for the current and £29M for the next financial year by reducing the level of cash deposits instead of carrying out new long term borrowing. This will also act as a risk management factor by reducing the overall level of deposits at potential risk.

5.82 All the above investment options have their own merits but with potential revenue budget consequences. On balance, the option to fund the capital borrowing requirement by reducing cash deposits and at the same time addressing the potential adverse revenue impact of forecast changes in the long and short term interest rates is probably the preferred option. However, this option also needs to be accompanied by changes to the list of eligible counterparties summarised as follows:

Banks & Financial Institutions

5.83 Increase the minimum long term credit rating criteria from "A" to "AA(+/-)" but leave the maximum amount limit to £10M, with the following exceptions:

- i) Co-operative Bank Plc, the Council's bankers currently rated "A"
- ii) Northern Rock Plc is currently rated A- but covered by UK Government guarantee which can be withdrawn with 3 months notice period. The Council currently has £3M deposited with Northern Rock Plc. In view of the UK

Government guarantee, it is proposed that the limit is increased to £8M with deposit period limited to a maximum of 3 months.

- iii) Irish Banks with AA(+/-) rating and Building Societies with both categories covered by the Irish Government Guarantee until 28th September 2010. However, in view of the size of the Irish economy and GDP, the maximum amount limited to £5M and investments to mature before 28th September 2010.

5.84 Where we have current deposits with counter parties rated “A”, these will be allowed to mature and no further deposits will be placed until further review and approval.

Building Societies

5.85 Building Society sector is now more closely monitored by the Financial Services Authority (FSA) and where potential problems arise, FSA arranges merger or takeover by a bigger and better capitalised building society. Typical recent examples are mergers of Cheshire and Derbyshire building societies with Nationwide Building Society, Barnsley Building Society with Yorkshire Building Society and the latest merger of Scarborough and Skipton Building Societies. This will naturally reduce the number of building societies with those previously ranked below top 30 moving up into top 30. The housing sector is already being adversely affected by the current economic and financial conditions. It is therefore proposed that the overall Building Society Sector is restricted to top 20 ranked by assets but with increased limits as follows:

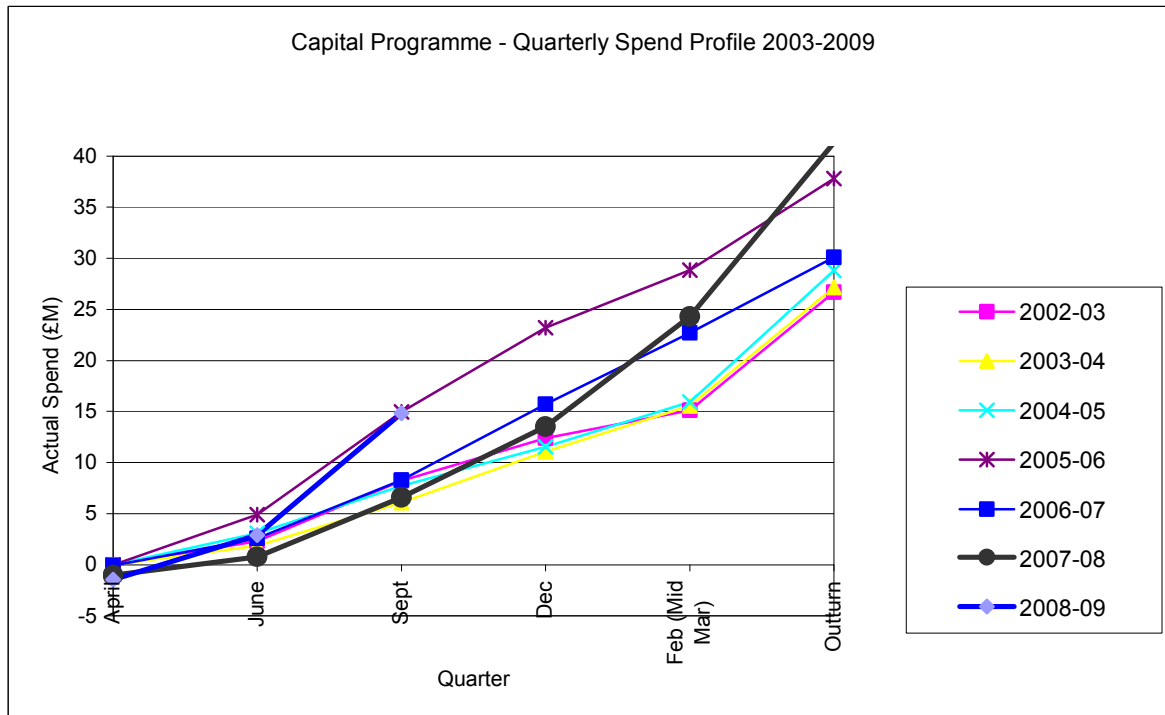
- i) Most of the top 10 building societies have obtained credit rating of A/F1. The current lending limit is £7.5M. To enable the Council to have sufficient flexibility to place deposits, it is proposed to increase the limit to £10M.
- ii) Building Societies ranked 11 to 20 have current lending limit of £6M. Again to provide flexibility, it is proposed to increase the limit for building societies ranked 11 to 15 to £8M with the existing limit of £6M retained for those ranked 16-20.

5.86 In addition to the above, Head of Treasury will keep the lending list and individual counter parties under review and where necessary reduce or suspend the individual counter party limit in consultation with the Treasury Management Panel.

2008-2009 Capital Programme Monitoring to September 2008

5.87 The actual capital spend to September 2008 is summarised below with details on the “High value/Priority” schemes shown in Appendix E. These also show a profile of the budget and the level of capital budget committed to-date. The definition of committed budget is “where the contract has been let and the value of either goods or services will be delivered by 31st March 2009”. Prudential indicators as at September 2008 are set out in Appendix F.

5.88 The current level of committed budget for the General Fund account is 59% and for the HRA it is 35%. The actual spend to date is higher than average for this period in comparison to the majority of previous years as shown graphically below. The profiles of spend show that the majority of the expenditure will occur in the last half of the year. Usable Capital Receipts of £0.807 million for Housing have been received this year to date.



SUMMARY OF CAPITAL PROGRAMME 2008 /2009

Line	Summary	2008/2009 March 2008 Approved Budget	2008/2009 July 2008 Budget	2008/2009 Spend per Oracle to Sept. 08	2008/2009 Variance to July 08 Budget	% of Spend to July 08 Budget	2008/2009 Budget Committed to Date	2008/2009 Budget Profile to Dec.	2008/2009 Budget Profile to March
		£'000	£'000	£'000	£'000	%	£'000	£'000	£'000
	EXPENDITURE								
	GENERAL FUND PROGRAMME								
1	Community and Wellbeing	2,566	2,526	268	-2,258	11%	1,541	1,022	2,105
2	Education and Children's Services	14,542	16,804	4,915	-11,889	29%	13,625	12,299	15,648
3	Green and Built Environment	10,614	11,531	2,438	-9,093	21%	8,043	5,713	9,328
4	Green & Built Environment: A. Housing Resources	2,223	2,547	176	-2,371	7%	562	747	1,482
5		12,738	11,669	966	-10,703	8%	2,692	2,140	10,538
6		42,683	45,077	8,763	-36,314	19%	26,463	21,921	39,101
	HOUSING REVENUE ACCOUNT								
7	Housing Revenue Account	12,822	21,309	6,055	-15,254	28%	7,469	11,761	19,460
8		12,822	21,309	6,055	-15,254	28%	7,469	11,761	19,460
9	TOTAL CAPITAL PROGRAMME	55,505	66,386	14,818	-51,568	22%	33,932	33,682	58,561

	SOURCE OF FINANCING	£'000	£'000	£'000
	GENERAL FUND PROGRAMME			
10	Capital Grants & Contributions	10,052	13,591	5,544
11	Capital Fund	0	0	0
12	Prudential Borrowing	6,393	15,879	0
13	Capital Receipts	26,238	15,607	3,219
14		42,683	45,077	8,763
	HOUSING REVENUE ACCOUNT			
15	Capital Grants & Contributions	0	91	0
16	Revenue / Major Repairs Allowance	4,283	7,917	5,556
17	Prudential Borrowing (Including ALMO)	8,539	10,385	499
18	Capital Receipts	0	2,916	0
19		12,822	21,309	6,055
20	TOTAL FINANCING	55,505	66,386	14,818

Financial Systems Update (September 2008)

- 5.89 iProcurement is working well and is being extended to People 1st. Commitment accounting reports have been tested and are ready for user acceptance. Accruals accounting is being tested. Further development is on hold pending the outcome of a strategic review of shared services.

Investigation Team Annual Report 2007/08 & interim report to 30th September 2008

- 5.90 Housing Benefit is provided to people on low income to support them in their own homes. It is therefore important that these benefits are efficiently administered and fairly distributed. All anti-fraud staff are required to advise customers of their entitlement to other welfare benefits, thus reminding people of the Council's policy to encourage benefit take up. Officers from the Investigation Team regularly brief members of representative groups on the work of the Team.
- 5.91 The Investigation Team work closely with various other local and national agencies. All enquiries are carried out in strict compliance with the relevant legislation. In addition, the Team seek to raise awareness of counter fraud across the Authority.
- 5.92 Within the overall framework for Housing and Council Tax Benefits that seeks to maximise take up of entitlement to benefits and discounts, the Investigation and Overpayments Unit works to prevent, deter and take action against those committing fraud.

Organisation

- 5.93 To combat the difficulties in recruiting and retaining investigation staff, a linked grade of Trainee Investigation Officer/Investigation Officer was introduced in 2003. This enables the Unit to recruit officers with little or no investigation experience. On the basis of proven competence, measured against a pre-determined framework, a Trainee can progress to Investigation Officer. This process is supported by mentoring by a designated officer within the Unit in addition to the accredited training programme mentioned at 5.15.
- 5.94 The Unit also provides a visiting service to carry out Council Tax inspections to meet the Authority's responsibilities in the areas of awarding discounts.

Performance Indicators

- 5.95 The Best Value Performance Indicators since 2003/4 include one indicator relevant to the Investigation Team.
- 5.96 Best Value Indicator 76 is a measurement of the Council's activity and resourcing in four areas:
- a) the number of visits carried out per 1,000 claimants
 - b) the number of investigators employed per 1,000 claimants
 - c) the number of investigations carried out per 1,000 claimants and
 - d) the number of sanctions (prosecutions, administration penalties and cautions) recorded per 1,000 claimants.
- 5.97 For 2007/8, the standard set by the Department for Work and Pensions to achieve "top quartile" performance for BVPI 76d was 4.3 sanctions per 1,000 claimants.

Despite depleted resources this target was reached and passed by the Investigation Team who achieved 5.8 sanctions per 1000 claimants.

5.98 For 2008/9, this national indicator has been deleted but performance in this area is now being measured by a local performance measure to ensure that the standard is maintained and improved.

Prosecution Policy

5.99 The Investigation Team initiated 72 sanctions cases during 2007/8. Of these 23 have been successfully prosecuted, 13 concluded with an Administration Penalty and 27 concluded with a Caution. In 9 further cases, dates have been set for trial in 2008/9.

5.100 For the period 1 April 2008 to 30 September 2008, the Team concluded 39 sanctions cases.

5.101 These have resulted in 17 successful prosecutions, 13 Administration Penalties and 9 cautions.

5.102 Sanctions Completed 2001/2, 2002/3, 2003/4, 2004/5 2005/6, 2006/7

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Prosecutions	4	14	9	14	22	31	23
Administration Penalties	1	5	13	2	6	1	13
Cautions	0	14	16	28	35	15	27
Total	5	33	38	44	63	47	63

5.103 Despite staff shortages (1 investigation officer has suffered protracted periods of sick leave and we have been unable to recruit to the vacant Team Leader post) the number of sanctions achieved has increased from the previous year.

5.104 Prosecutions continue to be taken either jointly with the Department for Work and Pensions, or Police, and by Slough Borough Council independently. Publicity for prosecution cases is by liaison between the Investigation Unit, Legal and Media Relations.

5.105 In the main, prosecutions are undertaken by the Council's Legal Officers and the Investigation Team continues to receive support and advice from our in- house lawyers

5.106 As result of investigations carried out in 2007/8 a total of £ 387,838 was identified as having been fraudulently obtained.

5.107 For the period 1 April to 30 September 2008 a total of £335,878 in fraudulent overpayments has been identified.

Fraud Awareness

5.108 The Unit has continued to conduct Fraud awareness training across Revenues and Benefits service areas and other teams within Slough Borough Council. Presentations have also been made to bodies such as the Slough Translation and Interpretation Service and to the Slough Federation of Tenants and Residents.

- 5.109 An ongoing review of the content of the training material is carried out to ensure its relevance.

Joint-working-Internal Audit

- 5.110 Following the recommendations of KPMG in their report "Countering Benefit Fraud", meetings are held between the Investigation Unit and Internal Audit as and when there is a specific link or overlap in enquiries. This arrangement is with the agreement of the then Head of Internal Audit and the Manager of the Investigations and Overpayments Unit.

Joint-working-Department for Works and Pensions

- 5.111 The Unit has in place a Service Level Agreement in which standards in counter-fraud work are set and monitored by both parties to ensure compliance.

- 5.112 The Authority is also represented on the Joint Regional Board which is tasked to work towards a common approach between Local Authorities and the Department of Work and Pensions across Berks, Bucks and Oxon.

- 5.113 Slough Borough Council is also represented on the National Executive of the Local Authority Investigation Officers Group. The focus of this group is to inform member Authorities on changes of legislation and to share good practice. It also communicates at a senior level in various Government Departments, and at Ministerial level.

Specialist Training

- 5.114 All officers in management grades in the Unit have now successfully completed the Investigation Management training programme accredited by Portsmouth University. All the Investigation Officers in the Unit are accredited under a similar training programme.

Prevention and Detection

- 5.115 The Council remains a signatory to the "Do Not Re-direct" scheme whereby the Post Office will return to the Authority any post (appropriately identified) where the recipient has requested re-direction.

- 5.116 As stated earlier in the report, other measures, which the Council has implemented and maintained, include the Security Against Fraud and Error programme, the National Anti-Fraud Network, Housing Benefit Matching Service, National Fraud Initiative, Fraud Hotline and Closer Working Programme.

- 5.117 The Authority is signed up to a National Fraud Hotline, which promotes the detection of Housing and Council Tax Benefit fraud.

- 5.118 The Unit also publicises the counter-fraud service in local publications, on benefit correspondence issued to applicants and in public buildings.

Changes facing the Unit in 2008/9

- 5.119 We will be looking to increase the level of joint working with the Department for Work and Pensions above the minimum requirement of the Service Level Agreement at an operational level.

- 5.120 The Team are seeking to add value to the service provided by working closely with Internal Audit to undertake enquiries generated by local data matching.

5.121 In addition, during 2009, an Investigation Officer from the Team will be trained and accredited as a Financial Investigator. The additional powers, legislated to by the Proceeds of Crime Act, will enable this officer to conduct detailed financial investigation and to restrain and seize, through the Courts, monies, property and other assets obtained as a result of criminal activities.

Housing Benefit Corporate Performance Assessment

5.122 The work of the Investigation and Overpayments Unit forms part of the assessment. The results of this assessment, for 2007/8, will be made available by the Audit Commission in February 2009.

Census 2011

5.123 Members will be very aware of Slough's campaign and challenge against inaccurate population statistics since the difference between the last census and mid year population estimates has move us from the 9th fastest growing authority in the Country to supposedly the second fastest decreasing authority in the Country. This has had a directly impact on the level of resources allocated to Slough.

5.124 The Officer of National Statistics are beginning to plan for the 2011 census and on the back of Slough's lobbying would like to carry out a sample survey in Slough to test the practices they intend to put into action in 2011. This is good for Slough as it gives us an opportunity to firstly influence the approach the ONS adopt in 2011, ensure it is responsive to Slough needs and also to test our own practices and learn locally for 2011.

5.125 The ONS are proposing to conduct a sample of 8000 homes at the beginning of March 2009, carrying out a fully mini census, from address checks, recruiting local staff, carrying out the required publicity, door knocking on non returned forms in the aim of learning as many lessons as possible. In particular they are interested in looking at HMO's sheds with beds and hard to reach groups.

5.126 A working group will be set up to support the ONS to ensure all lessons that can be learnt by both side, are.

6. Conclusion

The proposed changes to the borrowing strategy and the lending criteria should reduce the overall investment risk.

The Unit continues to focus its operations on the priorities identified by both the Audit Commission and the Department for Work and Pensions whilst continuing to provide a service in accordance with the objectives set out in the Council's policy on combating fraud approved by the Council in 1999. All the initiatives for the prevention and detection of benefit fraud are undertaken and performance in the recovery of benefits overpayments improved during the year.

Members will receive a joint summary report covering Resources and Performance Management at each meeting in 2008/09.

Directorates continue to work on their action plans to contain pressures by year end including ensuring officers respond to action in the monitor email recently circulated by the Strategic Director of Resources.

7 Appendices Attached

- A** Corporate Balanced Scorecard **(TO FOLLOW)**
- B** HR 1st Qtr Stats **(TO FOLLOW)**
- C** Summary of Restructure Changes
- D** Schedule of Directorate Variances to Budget 2008/09
- E** 2008/09 Capital Programme
- F** Prudential Indicators

8 Background Papers

- '1' Finance Detailed working papers are held in Corporate Finance and the relevant departments.
- '2' Performance working papers are held in the Policy and Performance section
- '3' HR data is held in the HR department
- '4' Local Government Association Press Statements dated 14th and 15th October 2008
- '5' Letter dated 13th October from Ernst & Young, Administrators to Heritable Bank Plc.
- '6' Business Plan 2007/8 and 2008/9
- '7' Best Value Performance Indicators 2007/8
- '8' Service Level Agreement with the Benefit Investigation Service of the Department for Work and Pensions 2007/8 and 2008/9