

Business Support Overview and Scrutiny Committee – Supplementary agenda

A meeting of the Business Support Overview and Scrutiny Committee will be held on:

Date: 27 January 2011

Time: 6.00pm

Venue: Meeting Room 2 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

Items

- | | | |
|-----------|--|--------------------------|
| 8 | Resident involvement review and local housing offers (Business Management) | (Pages 1 - 94) |
| | <p>This report sets out details of the conclusions of the Resident Involvement Review and of the proposed “local offers” Medway Housing Services have developed in full consultation with its customers.</p> | |
| 9 | Housing Revenue Account capital and revenue budget 2011/2012 (Budget scrutiny) | (Pages 95 - 118) |
| | <p>This report details how the Housing Revenue Account revenue and capital budgets have been drafted and explains the business objectives for the Housing Revenue Account in 2011/2012.</p> | |
| 11 | Treasury Management Strategy Statement and Annual Investment Strategy 2011/2012 (Budget scrutiny) | (Pages 119 - 194) |
| | <p>This report seeks the scrutiny of the Council’s Treasury Management Strategy for the 2011/2012 financial year. The Treasury Management Strategy incorporates within it the Treasury</p> | |

Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision policy.

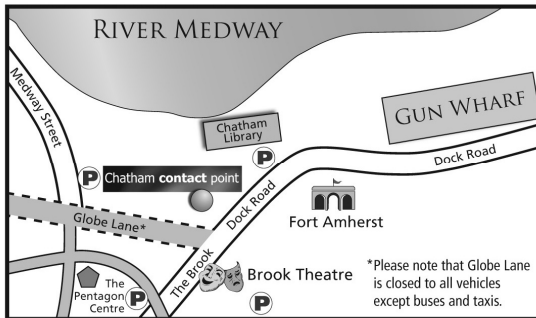
13 Revenue and capital budget 2011/2012 - Business Support (Budget scrutiny)

(Pages 195 - 196)

This report presents the Council's draft capital and revenue budget for 2011/2012 for areas that fall in the remit of this committee.

For further information please contact Caroline Salisbury, Overview and Scrutiny Co-ordinator on Telephone: 01634 332011 or Email: democratic.services@medway.gov.uk

Date: 21 January 2011



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A summary of this information can be made available in other formats from **01634 333333**

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**BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE
27 JANUARY 2011**

**RESIDENT INVOLVEMENT INVOLVEMENT REVIEW
AND PROPOSED LOCAL OFFERS**

Report from: Deborah Upton, Assistant Director Housing and Corporate Services

Author: Katherine Clark, Community Development Officer

Summary

On 1 April 2010 the Tenant Services Authority (TSA) became the new Social Housing regulator for all social housing landlords. This brought about a new much tighter regulatory framework including the need to involve customers fully in the scrutiny and development of services. There was a need for a full and fundamental review of the then current Resident Involvement mechanisms available to tenants and leaseholders of Medway Council. This was because the current methods would not deliver the outcomes required from the new regulatory standards.

Part of this new framework requires the Council to work with tenants and leaseholders to develop a series of “local offers” which must be in place by 1 April 2011.

This report sets out details of the conclusions of the Resident Involvement Review and of the proposed “local offers” Medway Housing Services have developed in full consultation with its customers.

1. Budget and Policy Framework

1.1 The proposed local offers can be developed within the Council’s Housing Revenue Account (HRA) budget. The Community Plan commits the Council to empower local people to have greater participation and influence in local affairs. Additionally the council’s core values of:

- Putting our customers at the heart of everything we do
- Giving value for money

also fit within the policy context of developing resident involvement and undertaking the Resident Involvement Review and can be contained within the existing budgets.

- 1.2 The Committee is asked to consider this matter as urgent as the tenant consultation has just been completed and the local offers must be in place by 1 April 2010.

2. Background

2.1 Resident Involvement Review

- 2.1.1 On 1 April 2010 the Tenant Services Authority became the regulator for all Social Housing. This brought about a new regulatory framework focussed around the TSA's five national standards: -

1. Tenant Involvement and Empowerment
2. Home – repairs & maintenance, quality accommodation
3. Tenancy – rents, tenure and allocations
4. Neighbourhood and Community - neighbourhood management, local area co-operation and anti-social behaviour
5. Value for Money.

The Council was required to set out how it met these standards in its first Annual Report to tenants and leaseholders, which was published and issued by 1 October 2010. Where it did not meet any areas within the standards it was necessary to ensure plans were in place to meet them.

- 2.1.2 There is also a requirement to fully involve customers in the scrutiny and development of services provided to them by their landlord. This includes for the development of a strategic Housing Landlord Scrutiny panel, which is to be tenant led.
- 2.1.3 The review included consultation meetings with both members and non-members of MeRGe, HRA Housing Services staff and the Portfolio Holder for Housing Services.
- 2.1.4 For many years the Council had relied upon MeRGe to act as its main forum for tenant and leaseholder consultation. As a result of these new requirements it was identified that the current mechanisms of resident engagement would not sufficiently bring about the desired outcomes and it was agreed, in conjunction with MeRGe, for a review of the current resident involvement service to commence. This was undertaken during the Summer 2010 by an independent external organisation.
- 2.1.5 As well as undertaking consultation, the review included a comparison of the service with other housing organisations that were deemed as “good practice” for resident involvement and a cost analysis of the budget.

This review identified that there was a need to broaden and increase opportunities for involvement, as existing methods did not provide opportunity for effective consultation. Additionally, it identified that for the majority of customers, resident involvement and the grant provided to MeRGe was not providing value for money.

2.1.6 In recognition of this and the need to develop resident involvement, MeRGe decided to disband and the formal closure of MeRGE took place in November 2010. The funds that had been provided to MeRGE will be re-allocated to the resident involvement budget to develop new initiatives for involvement and consultation.

2.1.7 The review proposed a new resident involvement structure (see Appendix 1). Since Autumn 2010 Housing Services has launched a series of forums, as recommended in the structure covering all the main areas of the landlord housing service. These include a repairs forum, leaseholder forum and tenancy management forum. Additionally a new editorial panel is in place where residents work with officers to develop publications including their own newsletter "Housing Matters".

Each forum has a terms of reference with the overall objective of each allowing customer involvement in the development of policy work, obtain a greater understanding of the services and how these compare to other similar housing organisations. Forum members also review and monitor service specific performance and act as a primary focus for consultation in relation to the provision and management of the Council's landlord housing service.

Attendance is steadily growing and already policy development work involving customers has been undertaken.

Officers are currently recruiting to the new strategic Housing Scrutiny panel, (Housing Improvement Board) which will hold officers to account on aspects of performance, assist with influencing policy development and budget setting. The board will be made up of a maximum of 12 representatives who will be selected through formal recruitment or be the chairs of the main forums.

The main purpose of the scrutiny panel is for members to represent tenants and leaseholders at the highest level in terms of strategic planning and scrutiny of the service. This gives tenants and leaseholders access to full debate and discussion on matters affecting the management of their homes, thus enabling them to make recommendations in terms of relevant reports about the HRA service that are to be considered by Members of the Business Support Overview and Scrutiny committee. This includes influencing budgetary setting, performance target setting and monitoring.

The dates of the board meetings will be set to allow for discussion and input into relevant reports to Overview and Scrutiny, and officers suggest that the chair of the Housing Improvement Board attend Overview and Scrutiny on an annual basis to provide a review of the board's work.

Through their role in scrutiny, Members will be empowered to 'draw up' reports on areas of the service where performance is either poor or "coasting" for a greater understanding of the reasons. Through these mechanisms and scrutiny, Members will be able to hold Officers to account.

Discussions will be held with the board members about the provision of a "tenants friend" from an external organisations to provide some independent initial support, guidance and training on their roles and how to undertake this effectively.

- 2.1.8 A full copy of the report arising from the review is attached (see Appendix 2) for Members information

2.2 Local Offers

- 2.2.1 Local offers and customer consultation is at the heart of the new localism agenda. As part of the new TSA regulatory framework, Social Housing Landlords are required to have local offers in place by April 2011. In developing these, landlords must be able to demonstrate how they have involved customers in shaping the offers. Furthermore customers must be involved in the scrutiny and monitoring of the offers for the future
- 2.2.2 Local offers can be based on geographical service provision, customer group requirements or a type of service. Involving residents in the decision making process and developing local offers for service provision is crucial to meeting the needs of customers and providing them with the opportunity to challenge and influence how housing services are delivered to their communities.

3. **Options**

- 3.1 In developing local offers Housing Services need to be able to demonstrate how they have arrived at these using data and feedback from customers. In order to develop the local offers for 2011 to date the following mechanisms have been used: -
- Strengths and weaknesses exercise around the TSA standards with residents in Summer 2010
 - Survey included in Summer 2010 edition of Housing Matters
 - Consultation with the Sheltered Housing Forum
 - Feedback from Citizens Panel survey, BME Group and Equality and Action Group
 - Analysis of complaint reports and complaint learning logs
 - Feedback from a range of customer satisfaction surveys
 - Working with Young Inspectors to prioritise issues for young customers
 - Feedback from existing focus groups and resident meetings
 - Consultation with the Asset Management group, which includes tenants, on the Medway Decent Homes standards
 - Informal feedback from Housing Officers
 - Analysis of Anti Social Behaviour complaints.

Following this exercise, the proposed local offers as set out in the report have been developed. Further consultation and development of these will now be undertaken to include: -

- Survey to be included in January edition of Housing Matters - to ascertain tenant priorities of the local offers.
- Further consultation with Sheltered Housing residents specifically around offers affecting them
- Door knocking surveys to be conducted in areas, which have requested estate and neighbourhood offers – i.e. security works.
- Issue of Status Survey to ascertain tenants views of the service
- Development of partnership working with other housing organisations
- Further work with Young Inspectors to prioritise issues for young customers
- Development of the offers with the relevant forums
- Continued consultation with residents via Housing Officers and estate inspections

Local offers are to be formally launched at a Resident Involvement event to be attended by tenants and leaseholders and relevant staff in February 2011.

3.2 Service Specific Local Offers

- 3.2.1 A range of service specific and neighbourhood and estate based Local offers were outlined in the Annual Report to Tenants, which was published in October 2010. Since then, these teams have been further developed and enhanced. The proposed offers for launch on 1st April 2011 are as follows:-

3.3 Holding Housing Officer Surgeries

- 3.3.1 Set up of local housing management surgeries with housing management staff in an agreed location on estates. Residents will be consulted on how frequently they would want the surgeries held and what issues to cover.

3.4 Providing greater opportunity for residents to get involved

- 3.4.1 Formal publication of the new resident involvement structure this will provide a variety of options for customers to become involved, so they can provide feedback at a time and in a manner that is convenient to them.

3.5 Developing a Medway Homes Standard

- 3.5.1 Develop a Medway Homes Standard to follow on from the Decent Homes Standard. The council successfully met the Decent Homes target by the end of 2010. A “Medway” standard is to be developed with residents to ensure all properties which have capital works undertaken all meet and match an agreed standard of upgrade and are uniform.

3.6 Devising with customers local packages of works

3.6.1 Analysing with customers any capital work that might be due in a particular property or estate and assessing if the work planned to be undertaken over the next five years could be conducted in a single period. This would mean a customer would get the next five years work in one go, with only one period of disruption. This would reflect local improvement priorities and allow us to adjust timescales accordingly or complete the works to one whole street in one go. This is in line with the Asset Management Strategy.

3.7 Amending the term “Sheltered Housing”

3.7.1 Following feedback a number of Sheltered customers have requested the term “Sheltered Housing” is re-branded to a more descriptive term such as “Independent Living”.

3.8 Neighbourhood and Estate based offers

3.8.1 The Housing Officers have also played a vital role when consulting with residents in their local neighbourhoods to develop the following Neighbourhood and Estate based local offers;

3.8.2 Benenden Manor

3.8.2.1 Residents have requested that we work with the Police to reduce instances of Anti Social Behaviour in the area and increase lighting on the estate and install security doors.

3.8.3 Arden Street

3.8.3.1 A programme of strategic planting and fencing to reduce instances of ASB in properties such as Tintagel Manor. The Young Inspectors also visited Tintagel Manor in May 2010 and recommended the following service improvements in the area:

- Better lighting in the area.
- Use the Community Payback Team to remove graffiti and conduct weeding.
- Ask residents if they would prefer garages or parking spaces, as garages are under utilised. Installation of solar panels on properties, as each resident could save up to £700 a year.

3.8.4 Cornwallis Avenue

3.8.4.1 Develop with resident's measures to increase security in the neighbourhood and prevent fly tipping of rubbish

4. Advice and analysis

- 4.1 To ensure that local offers are effective it is imperative that a robust system for monitoring and adapting local offers to residents' requirements and expectations is implemented. The Housing Improvement Board and relevant forums will monitor local offers developed by Medway.
- 4.2 The outcomes of local offers will be reported to residents on a regular basis and through a variety of mediums such as Housing Matters, the Council website, focus groups and web-based social mediums (such as Facebook, Twitter, Vimeo), updates displayed at Contact points and neighbourhood notice boards and at established focus groups and the Housing Improvement Board.

5. Risk management

- 5.1 Risks of not fully implementing and monitoring local offers include:

Risk	Description	Action to avoid or mitigate risk
Failing to meet TSA standard	The Council not meeting legislative requirements which could ultimately trigger a short notice inspection	Develop an action plan containing weaknesses identified with tenants in summer 2010, which will be monitored by members of the Housing Improvement Board to ensure issues are addressed.
Local offers not delivered	Offering services to customers which may be reduced due to budgetary constraints	Provide Local offers, which are feasible to deliver. Work with other departments or housing providers to share costs, improve service provision and develop further efficiencies Identify any external funding available to assist in developing these.

6. Consultation

- 6.1 Details of consultation undertaken in terms of the Resident Involvement Review and local offers are set out in the main body of this report.
- 6.2 Joint working has also commenced with stake holders and other housing providers such as West Kent housing and MHS Homes to develop an area wide local offer, which will provide value for money and improved services through joint working.

7. Financial and legal implications

- 7.1 All costs for development of local offers can be met from the existing HRA budgets

8. Recommendations

- 8.1 To note the outcome of the Resident Involvement review and new structure.
- 8.2 Agree local offers as set out in this report, subject to further customer consultation.

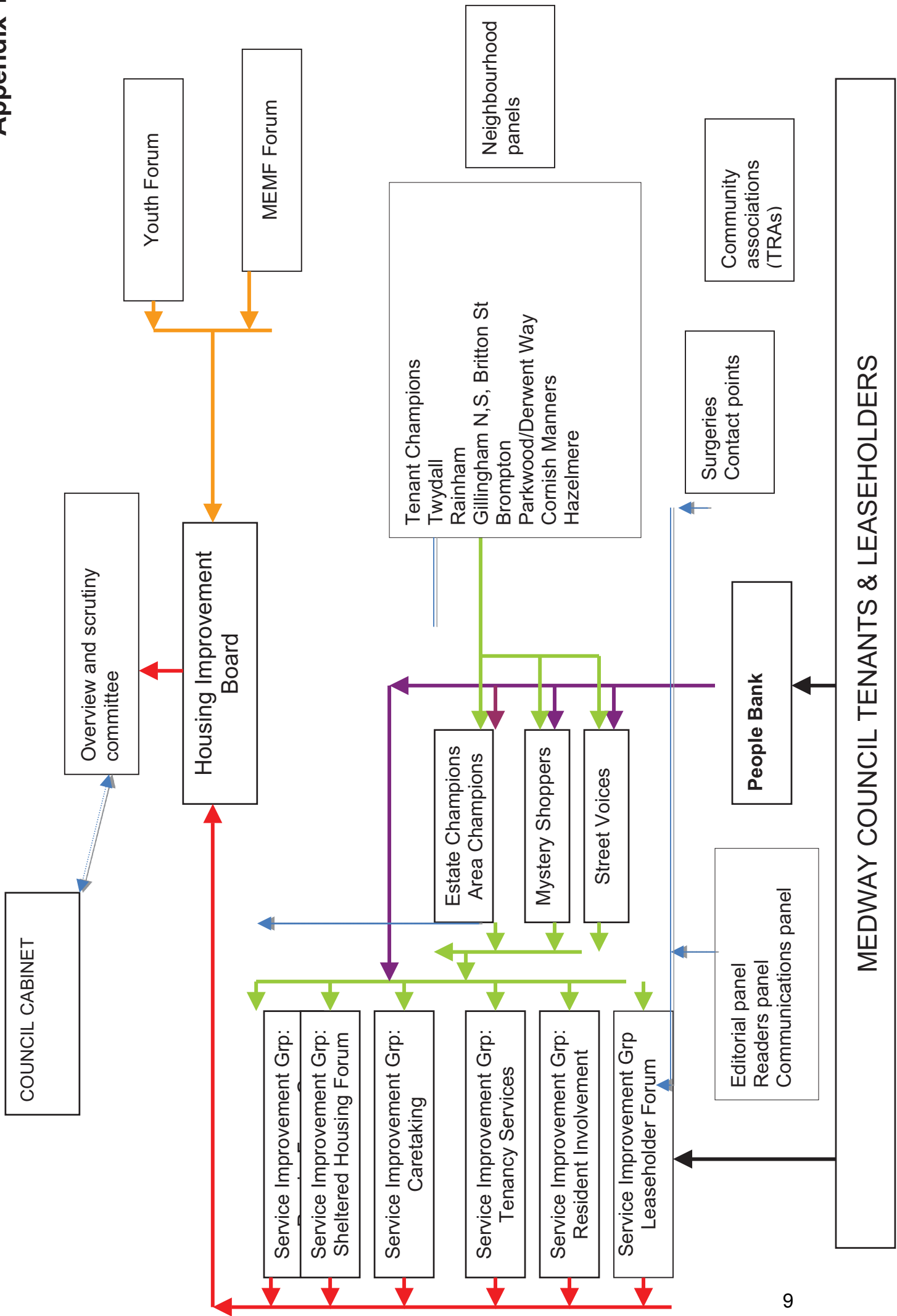
Background papers

Going Local, published by Tenant Services Authority, June 2010
Excellence in service delivery and accountability, National Housing Federation, July 2009
Excellence in Governance, National Housing Federation, April 2009
Medway Council Housing Services TSA Annual Report 2010

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Appendix 1



**Resident involvement impact and value for
money review**

Medway Council

OCTOBER 2010

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1 Background and introduction

In July 2009 HQN carried out a mock inspection for Medway Council looking at the housing landlord services. The findings from the inspection showed that resident involvement was generally a weak area of service with very low impact. It was not providing good value for money and was very centred on the involvement of MeRGe, the Medway residents' group.

Medway had then, in the interim period, made some significant changes and progress has been made against a number of the 'gaps' that were identified in the inspection report. Medway wanted to carry out a further review to aid the Council in developing its approach to resident involvement to deliver fit for purpose, effective engagement and empowerment, which demonstrates value for money.

The timing of the review was well placed as an opportunity to rise to the challenge of the new regulatory framework regime, currently enforced by the Tenant Services Authority (TSA).

The first year of any new regulatory framework is likely to be a very uncertain time for social housing providers. In this case the new coalition government is adding to the uncertainty as it develops new strategies and introduces sweeping changes. After years of prescriptive regulation, providers are being required to innovate more and focus on outcomes. Everyone should now be working on local offers (underpinned by resident involvement) as well as their approaches to scrutiny and co-regulation. Most providers are asking exactly the same questions: What should the structure and degree of resident involvement look like? Where does scrutiny stop and governance begin? What degree of involvement is 'right' for the local offers? How do we compare with others? What should the annual report look like? How does our current structure comply and will it deliver effectively? Are we providing value for money and are we accountable to residents in this regard?

This review was not just about processes and procedures and how the money is accounted for, but about rethinking the fundamental approach to involvement by changing ethos and culture if necessary to achieve greater impact. Essentially, the review was about the extent of change management required to enable the empowerment of residents: all residents, and not just those closely involved with MeRGe. The timing of the review, during July, August and September 2010, was well placed. Earlier in the year the TSA clarified its requirements, with resident involvement at the heart of its agenda. The outcome-based approach to regulation gives providers a new opportunity to shape their services to meet customer priorities.

This report provides the key findings from the review in terms of value for money and in terms of Medway's challenge to meet the regulatory requirements to produce tangible outcomes and impact with resident involvement. The options included in the report have been discussed during the review with officers and MeRGe residents.

Medway must now agree plans to drive forward the refinement and implementation of these options.

2 Purpose and scope of the review

Medway was looking to assess the effectiveness of the current resident involvement structure and delivery and to assess the level of value for money this currently offers. The review fell into two key areas:

- Effectiveness and future-proofing
- Value for money.

The intention was to highlight the areas where there is most need for change and to develop options to future-proof tenant involvement and empowerment.

Medway is developing a range of specific service panels, but at the time of this review these are still fledgling and not yet established, so the main focus of the review, assessing the effectiveness of resident involvement, centred on MeRGe.

An essential reference for future-proofing has been taking into account the outcomes and expectations outlined in the tenant involvement and empowerment standard in the TSA's regulatory framework for social housing 2010. Issues such as co-regulation and resident-led self-regulation were considered as a key part of the review.

Under the TSA regulatory regime, a clear explanation of the resources allocated to various activities, and the reasons for these allocations, is required. In order to understand the value for money of resident involvement activity, the starting point was a need to understand Medway's costs. Judgements have been made as to whether, overall, the cost of the activity is reasonable for the outcomes achieved. The review has also looked at individual aspects of the involvement activity, considering the outputs achieved for the financial inputs, and considering:

- Whether specific activities could be carried out in a more cost-effective manner
- Whether specific outcomes appear relatively expensive.

Local offers have also been within scope for this review. Given the timing – just when providers were developing their local offers in line with the requirements of the regulatory standards – it was a perfect opportunity to capture ideas and suggestions arising from the review and feed them into Medway's local offers process.

3 Our approach

The previous inspection was undertaken primarily against the key lines of enquiry (KLOEs), which are now under review, so we sought to build upon this and ensure that the assessment took into consideration the TSA standards as well as the bank of positive practice now emerging amongst providers as they seek to deliver the principles of the regulatory framework.

In terms of value for money we sought to get to grips with all the costs associated with resident involvement at Medway and to understand the accountability for these costs. We then applied our knowledge of the costs incurred by other councils, and their outcomes, to assist in making this overall judgment.

The review was undertaken by two HQN consultants. Angela Wheeler, our resident involvement specialist, undertook the assessment of impact and fitness for purpose. Robin Tebbutt, HQN's Executive Director (Finance), undertook the value for money assessment. Angela and Robin both focussed on their areas of expertise but also worked together, sharing their findings, to help develop the options for discussion with Medway and MeRGe. Both Angela and Robin met jointly with Medway officers and MeRGe members where it was appropriate to do so.

To deliver the desired outcomes we undertook a number of activities as outlined below.

3.1 Project team and project initiation meeting

We initially recommended that Medway set up a project team to oversee the review, which would include a cross-section of residents and staff (including senior staff). However, due to the structural changes being implemented within Medway, some of the key posts were vacant at the time of the review and together with staff holidays this conspired to make it difficult to co ordinate a robust project team. Instead we met initially with the Head of Service Improvement who is leading on resident involvement and also with leading members of MeRGe. The purpose of this meeting was to formally introduce the review, explain the scope and establish the key issues currently facing Medway.

Following this meeting we agreed a series of sessions for the on-site review work.

3.2 Desktop review

We undertook a desktop review of key documents. A document request list was given to Medway and the relevant documents were provided efficiently.

The main emphasis of the desktop review was:

- To inform our assessment of the fitness for purpose of the current structures, policies and framework against the TSA expectations and the tenant involvement and empowerment standard
- To inform our assessment of the effectiveness and impact of resident involvement at Medway as it currently stands
- To identify areas for further exploration
- To look at Medway's development of local offers and how this review could be linked

- To scrutinise the costs, expenditure and outputs to assess value for money of resident involvement.

The desktop review also assisted us in identifying key issues to explore at the challenge workshop.

3.3 Challenge workshops

To kickstart the project and initiate the challenge element of the review we held two workshops, one for officers and one for residents. The aims of these workshops were to:

- Highlight the TSA expectations and how to comply with the standards
- Offer best practice examples from other social housing providers
- Work with participants to self-assess Medway's current position against compliance
- Work with participants to assess Medway's fitness for purpose – are we fit now? What works now that needs protecting, and what needs to be done to get fit?
- Explore the impact of involvement overall and the individual activities at Medway
- Assess current performance and accountability – measures for success, indicators of performance, monitoring and reporting these in future
- Look at priorities for change – to inform the Medway strategy
- Feed outcomes into the local offers process.

The officer workshop was attended by:

- The Head of Service Improvement
- A representative from sheltered housing management
- A housing assistant
- A representative from leasehold management
- A member of the service improvement team with a good knowledge of the repairs service.

The residents' workshop was attended by:

- MeRGe committee members
- Residents who attend the new repairs panel

- Residents who attend the new caretaking panel
- Residents who attend the leaseholder forum
- Residents who attend the sheltered housing forum.

The PowerPoint presentations used to help facilitate these workshops are included in appendix one.

3.4 On-site days

Following the challenge workshop we met with key officers and MeRGe to:

- Explore further issues which arose from the challenge event
- Work with MERGE to explore the issues and options
- Meet with staff to continue the challenge and consult on options for moving forward.

We met for further challenge sessions with:

- The Head of Service Improvement
- The Head of Landlord Services
- The Assistant Director Housing and Corporate Services
- The interim Tenant Participation Officer
- The MeRGe committee and involved members
- The cabinet portfolio holder for housing.

3.5 Getting behind the numbers

To carry out the value for money review element of this project, we also scrutinised a range of documents provided by Medway and MeRGe. These included:

- The audited accounts for MeRGe
- The service level agreement (SLA) for MeRGe and Medway
- The monitoring reports for the SLA
- Budget and expenditure records for Medway's resident involvement.

We met during the on-site days with MeRGe committee members and with key officers; further liaison by email sought to clarify any queries that arose from our desktop review.

4 Context

A review of the current Medway resident involvement provision would not be complete without reference to the context in which Medway as a social housing provider works. The review focused on fitness for purpose and increasing impact as well as value for money. Both of these areas require reference to the current national context, where the environment is changing. It was, therefore, prudent to take a foray into the positive practice of those who are ahead of the game in responding to this change.

Medway, as a local authority landlord, came under the regulatory wing of the TSA as from April 2010. For the purposes of this report we consider all registered providers to be in the same position when it comes to involving and empowering tenants. The one difference for Medway is the governance structure. Where housing association providers have a board of management, Medway has a cabinet with a housing portfolio holder linked to full Council.

4.1 National context: the expectations

The social housing world has embraced resident involvement, particularly over the past decade, with a clear mission to put residents right at the heart of delivering service excellence. In the housing association world, residents on boards of management has been accepted as best practice for many years and within the local authority arena councils have been looking to scrutiny panels and sub-committees to include their tenants. But in recent years the movement has been to spread the decision-making load much wider to bring higher numbers of residents and a broader range of experience into the frame. Comprehensive networks and structures for resident involvement are now expected to be in place to act as channels for routing the learning from the actual service users' experience through to where the decisions are made.

Overarching expectations

Every social landlord is now expected to offer a diverse range of opportunities for involvement, which provides residents with a menu of options with a varying scale of commitment. The sliding scale should offer options to suit residents within the realms of:

- Information
- Engagement
- Consultation
- Participation
- Active involvement

- Empowerment, including scrutiny
- Co-regulation
- Resident-led management.

The Housing Corporation, as predecessor to the current TSA, held resident involvement in high esteem. The Audit Commission inspection regime sought to embed the benefits of resident involvement regarded so highly by the regulator and dedicated one of the KLOEs to this aim. KLOE 5 applied the principles and expectations for resident involvement as a service area in itself, but all of the other KLOEs had service user influence running through them as a theme.

Regulatory framework

The transfer of regulation across to the TSA has now been completed, and the regulatory framework for social housing in England 2010 has been in force since April 2010. At the time of writing this report the future of the TSA as the regulatory body for social housing is in question. The coalition government has announced its intention to review the position of the TSA and has also recently announced the intention to abolish the Audit Commission. The government ministers have been quite clear, though, that they support the underlying principles and aims of the new regulatory framework and that these are very much here to stay. The question is ‘who will police the compliance against the standards, not abolition of the standards?’

The immediate answer lies in the regulatory framework itself. It is built on the fundamental principles of co-regulation between residents and their landlord providers. The TSA, as current guardian of the regulatory framework, states:

“We have made it clear that our regulation can best support lasting service delivery improvement if both providers and tenants have a sense of ownership in the regulatory framework. We have based our framework on creating a new expectation that providers will involve their tenants and hold themselves open to scrutiny by them.”

They expand on this further: *“With greater freedom for providers comes greater responsibility to deliver a better deal for their tenants and be held accountable for achieving this by their own governing bodies and their tenants. Only when this fails to deliver a fair deal for tenants will we, as the regulator, step in.”*

The regulatory framework sets out ten principles that underpin the approach to regulation.

The first principle and the key focus, which is pertinent to resident involvement at Medway, is the principle of co-regulation. Regardless of the future of the TSA community influence is high on the coalition agenda. Localism is the key component of the vision for the ‘Big Society’ and co regulation within social housing fits neatly into this overarching vision of local communities taking responsibility for their own future.

“Co-regulation’ is the TSA’s approach – we expect robust self-regulation by the boards

and councillors who govern the delivery of housing services, incorporating effective tenant involvement, subject to a ‘backbone’ of regulation by the TSA.”

The regulatory framework is clear on its expectations, whilst at the same time, not prescribing how each provider should achieve them:

- *“The TSA standards place a strong emphasis on providers involving their tenants to shape local delivery to local priorities and scrutinise performance. The primary focus for discussions on service delivery and improvement should be between providers and their tenants rather than between the regulator and the provider”*
- *“Tenants should have the ability to monitor and scrutinise their provider’s performance against all the standards. Providers will also provide support for tenants to build their capacity to make co-regulation effective.”*

In delivering the overarching principle of resident-led scrutiny and co-regulation, providers must meet the six standards that have been developed in collaboration with tenants across England. The TSA is clear that the outcome for tenants is the primary concern and not the detail of the process for achieving them.

The six standards cover the full range of services provided by Medway except for the governance and financial viability standard, which, as a local authority provider does not apply to Medway. The standards are:

- Tenant involvement and empowerment
- The home
- Tenancy
- Neighbourhood and community
- Value for money
- Governance and financial viability.

The underlying principle of enabling resident scrutiny and co-regulation applies across all of the standards.

Annual reports and local offers

The regulatory framework requires Medway, as with all other registered providers, to set out in an annual report how their service offer meets their obligations for the standards outlined above (except for governance and financial viability). The annual report should show how they will deliver on the commitments, be accountable for compliance with the standards, and highlight any improvements that are planned for the next year.

Tenants must be involved in the preparation and scrutiny of the annual report and the report should set out how this has been achieved. The reports must be published in October each year for tenants and the TSA.

'Local offers' is the phrase adopted to embody the principle of tailoring services based on what tenants want. Medway must ask tenants if they want local offers against the five service standards. The annual report is the vehicle for telling tenants how these local offers will be put in place. Local offers must be in place and in force by April 1 2011.

Local offers must be the subject of conversation with tenants for three of the national standards in particular (but others can be brought into the frame if tenants wish):

- Tenant involvement and empowerment
- Home
- Neighbourhood and community.

The development of local offers has been the subject of a pilot initiative with a range of 37 different projects. There is some confusion still around the detail and depth of the expectations for local offers, and positive practice is still emerging as providers move towards the deadlines for reporting progress and commitment in the October annual reports and for enforcing the offers in April next year.

This review has included some challenge of how Medway will comply with the requirement for local offers and annual reporting, and suggestions for local offers against the tenant involvement and empowerment standard. The suggestions are recorded here in section nine of this report.

Producing 'fit for purpose' annual reports and local offers is the subject of debate amongst providers and their advisors. Guidance in the form of toolkits has started to take shape. Essentially, the principle stands that tenants should be determining what they want the purpose and fitness standard to look like. It is primarily the tenants' report and tenants' offers, after all.

The underlying foundation of current regulation is working towards resident-led scrutiny and co-regulation, so it follows that to meet the regulatory requirements Medway must build an evidence base and make self-assessment judgements. Self-assessment against compliance and performance of local offers is at the heart of what co-regulation should be monitoring. Annual reports are the shop window to display your achievements and areas for improvement.

Self-assessment will rely on robust evidence gathered from a range of sources all routed through the hub of scrutiny. Scrutiny mechanisms will assess compliance against the regulatory framework; against tenant satisfaction, needs and aspirations; against service performance; against value for money, and against viability. The evidence base to be assessed will need to provide quantitative as well as qualitative data and information.

Tenant involvement and empowerment standard

In relation to the tenant involvement and empowerment standard, Medway is required to deliver outcomes for:

- Providing tenants with a range of opportunities to influence how providers meet all the TSA's standards and to scrutinise performance against all standards and in the development of the annual report
- Providing support to tenants to build their capacity to be more effectively involved.

The specific expectations required are:

- Arrangements to be in place for involvement and scrutiny
- Enabling tenants the opportunities to scrutinise the effectiveness of their policies in relation to tenant involvement
- Registered providers to consult tenants at least once every three years on the best way of involving tenants in the governance and scrutiny of the organisation's housing management service. They shall ensure that any changes to tenant involvement in governance and scrutiny lead to an enhancement of the overall effectiveness of their approach.

Other guidance

In addition to the regulatory framework, other national housing organisations have laid out their vision for resident involvement and empowerment. The National Housing Federation (NHF) responded to the TSA regulatory framework on the issue of governance. Its message was that residents need to be sure that their views are being listened to and acted upon and that decisions taken by the board are communicated back to them.

Medway as a local authority is not bound to comply with the governance and financial viability standard; however, it is always pertinent to look to best practice to achieve excellence and Medway can learn lessons from this guidance.

The NHF is clear that excellent resident engagement is part of the overall good governance, and good accountability mechanisms of an organisation should decide, in partnership, how best to engage tenants in a meaningful way. The NHF feels that the scope and impact of involving and empowering residents should be the focus of the provider's attention, rather than the question of whether there are residents sitting on the board. The NHF is less focused on co-regulation than it is on ensuring service users are able to truly influence the shaping and performance of the services they receive.

Whilst having mechanisms and frameworks in place for resident-led scrutiny and co-regulation is a primary concern, it is also important that opportunities are maximised to capture the experience and views of actual service users. For the Medway review we have coined the term 'butterfly net' to encompass this requirement. The TSA standards do not

expect those residents who are involved in scrutiny and residents, staff and board members at decision-making level to sail this ship alone. The burden is placed on providers like Medway to ensure that they have a robust 'butterfly net' to catch and capture learning from day-to-day service experience. This insight should be used to inform and enhance the improvement of service delivery and policy setting.

4.2 *Learning from positive practice*

The regulatory framework is not prescriptive in how to achieve the outcomes it desires, but it does define the expectations that must be met. With no prescribed detail, all providers can only turn to their own internal vision and interpretation and to positive practice to offer a guiding light.

The launch of the new regulatory framework for social housing in England and the drive towards resident-led scrutiny and co-regulation has been embraced by many other registered providers. The emerging practice is being documented and analysed by professional housing bodies and agencies.

Professional bodies

The Chartered Institute of Housing (CIH) has published two reports providing excellent guidance and direction for developing resident led self-regulation:

- Most recently, in March 2010, *Resident-led self-regulation: Enhancing in-house scrutiny and performance*. This provided an update on the previous publication
- *Leading the way. Achieving resident-driven accountability and excellence*, 2007.

The CIH has carried out research looking at six different housing providers, all approaching resident-led regulation differently. It concluded that resident-led self-regulation is about involving residents in the running of a housing business, and about empowering them to influence decisions made and directions taken. They suggest that three key characteristics are required for genuine resident-led self-regulation:

- **Independence** from other governance and management structures
- **Formality** in operation
- **Power** for residents to challenge and effect change.

The CIH further clarifies that resident-led self-regulation can be used across the whole of a housing business. Key areas of the business where resident-led scrutiny activity can be brought into self-regulation are:

- **Services** – scrutiny and subsequent interventions around frontline services offered, considering matters such as operational performance, contractors used, specifications set, etc

- **Business** – scrutiny and subsequent interventions on strategic decisions such as which activities the company/department will get involved with, which to prioritise, which geographical areas to focus on, etc
- **Governance** – scrutiny and subsequent interventions around the skills and composition of governance structures which oversee the housing business
- **Constitutional** – scrutiny and subsequent interventions on decisions about the legal structure of the housing function, such as decisions on groups and mergers.

An HQN briefing paper by John Wheeldon, *What inspectors say about resident involvement*, July 2010, analyses the outcomes from a number of short notice inspections of resident involvement. The briefing identifies certain areas of resident scrutiny that Audit Commission inspectors have found to be consistently weak. The briefing states:

- The key to meeting the requirements is scrutiny and challenge of performance by residents
- The strengths all related to mystery shopping or similar tenant inspection activity, particularly where it could be shown to have led to positive changes
- The weaknesses were where there was no resident body regularly reviewing and challenging performance, particularly performance indicators
- Weaknesses were also where published performance reports to residents were inadequate. Particular issues were:
 - Not having comparisons with local landlords
 - Not including financial or VfM comparisons
 - Presenting too little or too much information or not in an easily digestible way.

The positive practice that is available and is still emerging has been, and should continue to be, taken into account as Medway develops its plan for improvement.

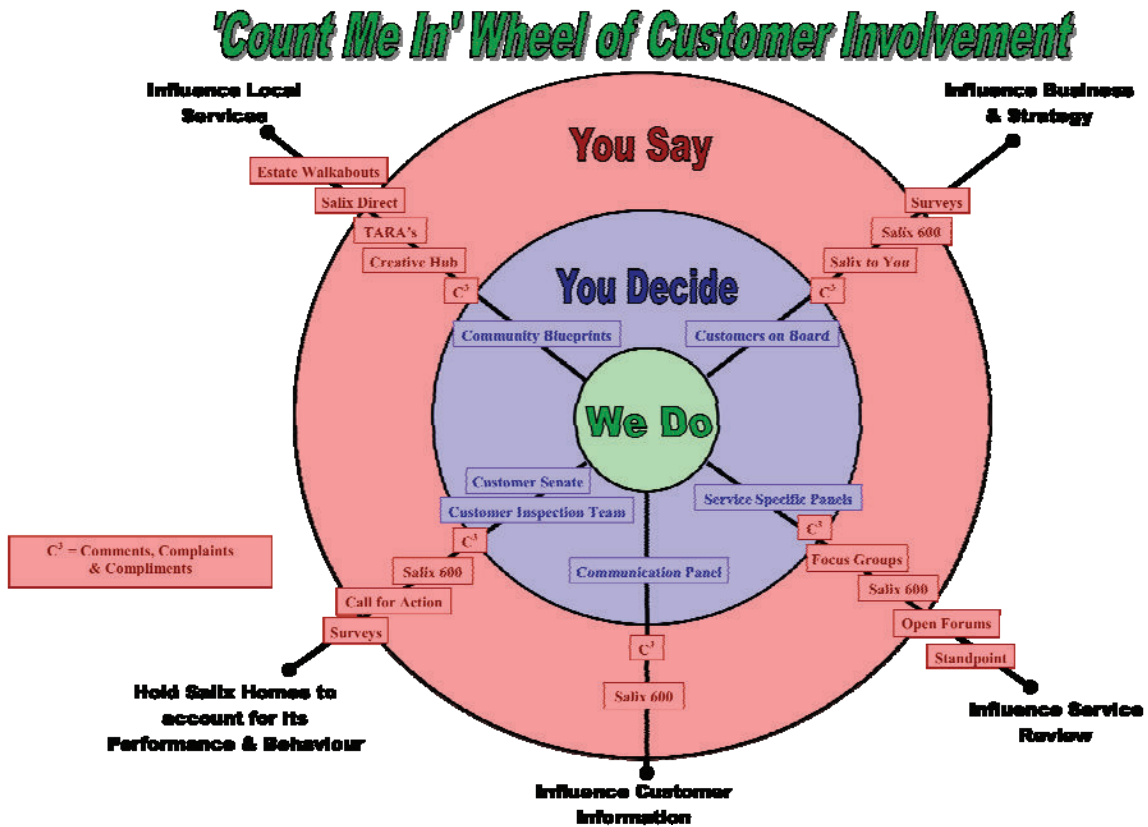
Model practice

One particular model of positive practice has been identified during this review as being appropriate for Medway to investigate. The Salix Homes ‘Count Me In’ wheel of customer involvement neatly sums up the Medway vision for the future. An integral part of the Salix wheel is its Customer Senate.

The ‘Count Me In’ wheel was introduced to the officers and residents at the challenge workshops. They welcomed this model, as shown in figure 4.2.1 below, and agreed that it reflected the most concise way of demonstrating the principles that Medway wishes to adopt. This model enables and channels the influence of residents from the wider butterfly net of learning from day-to-day service experience through to resident-led challenge to achieve true empowerment.

Figure 4.2.1

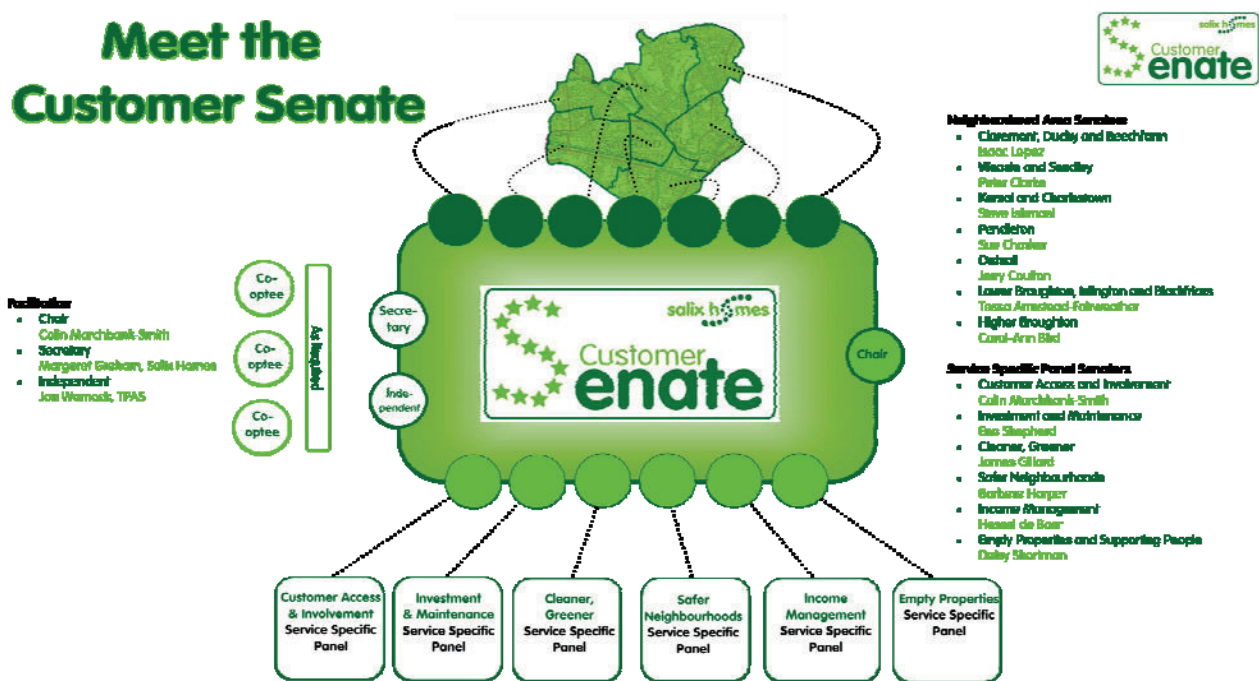
Salix Homes model. Source www.salixhomes.org



Similarly, the Salix Customer Senate model, as shown in figure 4.2.2 below, provides food for thought for Medway as it looks to develop the mechanism and capacity for its residents to take on the challenge of scrutiny. Clearly, Salix as an ALMO, has a slightly different governance structure to Medway and the direct links to the Salix board of management would not be appropriate. Those housed by Salix Homes are, by nature of the ALMO, local authority tenants and Medway can therefore look to the principles of the Salix Senate for guidance in the make-up and terms of reference.

Figure 4.2.2

Salix Customer Senate. Source www.salixhomes.org



The Senate is made up of 13 customers, selected from Salix Homes' six service-specific panels, which scrutinise its key customer-facing services and the seven neighbourhood areas that make up Central Salford. This ensures that both service concerns and neighbourhood issues are highlighted.

The Senate is in place to scrutinise and recommend improvements to services offered by Salix Homes and is formally recognised within the governance structures of the organisation. The structure ensures that customers are measuring, testing and monitoring the services they receive and customers are influencing the development of the business.

The Senate will undertake a minimum of three scrutiny exercises each year. The topics for scrutiny can be identified as follows:

- From a range of options put forward by the executive management team
- An area of interest to the Senate
- From any referrals for scrutiny by the service-specific panels
- As a result of a community call for action by a group of customers or as a repetitive area of complaint.

The Senate use a scoring matrix to prioritise the topics of scrutiny and will publish a forward plan of scrutiny. However, it must be noted that should the Senate accept a

'community call for action' it is probable that the relevant service area will be scrutinised as soon as any ongoing scrutiny is completed and consequently the forward plan will be updated.

As a result of the scrutiny, an improvement plan is created and monitored for the area scrutinised by the relevant service-specific panel and the Learning and Diversity Committee with regular updates to the Senate.

Should Salix Homes fail to deliver the improvement plan, the Customer Senate has the power to serve a 'notice of intent' on the board, a feature developed by the Senate that allows them to seek the support of the Council to consider their grievance should the process fail.

The key elements required for the Salix model are:

- Regular and routine challenge of performance of all service areas by residents
- Regular, routine, systematic and robust mystery shopping, tenant inspection, resident quality control
- Regular, routine programmed service/strategic reviews leading to action plans and further review
- Service-specific challenge opportunities
- Tenant trigger mechanisms
- Resident quality monitoring/inspection activities
- Governance framework willing to devolve and delegate decision-making powers to resident scrutiny framework
- Agreement to routes for mediation/conciliation if a governance vs scrutiny impasse is reached.

To deliver the above Salix, or Medway if it chooses this route, must offer:

- Capacity-building and training
- Diverse range of residents involved to reflect Medway profile
- Resources to support and develop
- Capacity-developed resident scrutineers
- Roles for non-scrutiny-type resident involvement
- Routes to governance and decision-making

- Decision-making powers devolved and delegated within resident scrutiny framework
- Information presented and provided in easily digestible formats
- Openness and transparency from the landlord on financial information and performance information – provided to scrutiny residents
- Information available for scrutiny residents on local landlord comparison.

The Salix ‘community call for action’ is a key part of triggering scrutiny reviews and challenge. This call for action is formalised (information is on the Salix homes website); it offers a systematic route for complaints and issues to be raised by residents.

The Customer Senate has a range of powers and terms of reference that support its role. These are:

- Unfettered access to performance information, benchmarking data and customer feedback
- The Senate can commission independent evidence-gathering through customer inspection team and other resources
- The ability to hear evidence from officers, partners and customers on request
- A formal duty on the Salix Homes board and executive team to respond appropriately and in a timely manner to Senate requests and recommendations
- A requirement that the Salix Homes board/executive team develop and implement improvement plans that have been agreed with the Senate
- Clear mechanisms for redress for non-action:
 - A formal ‘notice of intent’ served on the board and a prescribed duty to respond
 - Referral of the matter to the Council (Salix Homes is an ALMO)
 - Request for intervention by TSA.

The Customer Senate will be responsible for the annual reports, which will have an appendix that shows the annual impact of the tenant-led approach on service delivery and performance.

There is also in place a mechanism for succession planning and progression to board membership for those who are interested to do so.

5 Meeting the standard

To meet the tenant involvement and empowerment standard and deliver the principles of the regulatory framework Medway must seek to be more outcome-focused. Getting more residents involved will not be the cure all for Medway. Success will be achieved through developing a range of essential elements within the overall Medway structure.

5.1 Outcome focus

Meeting the regulatory framework and the national standards is essentially about 'doing things differently' rather than adding to costs. But achieving value for money is of prime concern. The key to delivering value for money is not only prudence and good financial management but also delivering outcomes and impact.

Providers and their residents must seek answers to the following questions:

- Are we making an impact?
- What impact are we aiming for?
- What are we getting for our money?
- Is this in line with expectations and our peers?
- How can we spend more wisely?
- Where is the resident scrutiny and what difference is it making?
- Are the customers satisfied that local offers are being delivered?

The move is away from organisational resident engagement strategies and towards tailored support to customers to engage meaningfully at a local level, 'local' being defined by the customers.

The skills required for service managers may have to be reconsidered. Effective resident involvement and empowerment requires with engagement, communication and negotiation skills with the overarching ethos that customers are in the driving seat – they are the boss! The extent to which this requires a major change in management culture will depend on the organisation. For Medway there will be many challenges in driving through the changes in resident involvement. It will require a much more open approach to tenant empowerment and scrutiny, a change of organisational culture for the majority of service teams, and some fundamental changes to MeRGe and the resident involvement structure.

5.2 The framework fundamentals

Taking into account the positive practice and looking at what is needed to comply with regulatory framework, the essential ingredients that need to be in place for Medway are

outlined in the table below. The table also shows how Medway currently measures up against these essentials.

Figure 5.2.1

Essential element	Desired outcomes	Medway position
Regular service-specific review	<ul style="list-style-type: none"> • Consultation with service users • Review of performance and policy with service users • Partnership in performance challenge • Service user scrutiny of service area 	<ul style="list-style-type: none"> • New service improvement groups are starting to bring new faces into involvement. The specific service areas are focussing on service users to a certain degree and have potential for developing scrutiny by service users • Review of performance has largely been with MeRGe involved residents in the past rather than wider in scope • Performance challenge has generally come from MeRGe and the sheltered forum. This has not tended to be in partnership historically, although recent challenge by the sheltered forum has had impact on service proposals
Resident scrutiny mechanisms	<ul style="list-style-type: none"> • Strategic performance challenge • Overview of service specific scrutiny • Formal influence at board and decision-making level • Targeted challenge and scrutiny • Self-assessment of Medway performance 	<ul style="list-style-type: none"> • MeRGe and the developing service-specific panels provide the only strategic challenge. The impact of this has been limited • A proposal is in place to set up a housing improvement board as a resident-led scrutiny panel. The outcomes of this review will impact on this proposal

Essential element	Desired outcomes	Medway position
		<ul style="list-style-type: none"> • There has historically been links between MeRGe and elected members since elected members do in theory sit on MeRGe. Cabinet influence appears currently to be through MeRGe and portfolio holder liaison, and mutual consent rather than formal protocol • Challenge and scrutiny is not targeted or systematic as yet • Medway have had health check inspections in the past to assess performance; MeRGe and Head of Service Improvement have done some work assessing against the new regulatory framework
Neighbourhood balance and local tailoring	<ul style="list-style-type: none"> • Local level engagement and influence • Tailoring of services and standards to suit this local level • Local level performance monitoring and challenge • ‘Local’ must be defined by residents working with Medway • ‘Local’ could be defined as geographic (at varying scales)/demographic/need-specific 	<ul style="list-style-type: none"> • Local level engagement is restricted to geographic areas where MeRGe is strong, and specific services which have come under the spotlight. Often the engagement is limited in numbers as Medway and MeRGe have struggled to entice people to engage • Tailoring of services and standards has been limited and has been Medway-wide not locally defined • There has been very little ‘local’ definition as yet • The area would lend itself to area definition for local as well as service-specific

Essential element	Desired outcomes	Medway position
		and household type, eg, sheltered
Resident inspection	<ul style="list-style-type: none"> Quality monitoring against standards and offers by trained service users Influence of results on decision-making and challenge at scrutiny, service-specific review and board levels Influence of results into improvement planning Resource for scrutiny evidence base 	<ul style="list-style-type: none"> Proposals are in place to introduce mystery shopping working with other local providers, but this has not yet been established The lack of resources for resident inspection has meant that influence on planning and evidence base for scrutiny has not occurred
Pick 'n' mix 'as needed' work groups	<ul style="list-style-type: none"> Resident-wide engagement Targeted engagement using profile data Focused topic review and insight Feed into scrutiny, service-specific review Feed into evidence base and self-assessment 	<ul style="list-style-type: none"> Focus groups and events have been used in the past by MeRGe and Medway officers to engage with residents The engagement has not been targeted using profile data There is little evidence to show that the findings have had any great impact or influence
Profile database	<ul style="list-style-type: none"> Comprehensive data base of resident profile Use for targeting engagement Strategic and local influence from across all profile characteristics to tailor and shape 	<ul style="list-style-type: none"> Profiling of residents is still ongoing for Medway, so far 1710 returns have been logged, just under 60% of the council's 3050 retained housing stock The application and use of the data is limited as yet and not yet used for targeting engagement

Essential element	Desired outcomes	Medway position
Involvement database	<ul style="list-style-type: none"> • Tracking of involvement • Monitoring for diversity • Monitoring for value for money • Tracking outcomes and impact • Strategic planning 	<ul style="list-style-type: none"> • The database is basic • There is an issue of duplication of those who attend a range of groups • There is confusion over the titles given to some groups and clarity is needed • Impact and outcomes are not tracked systematically • MeRGe has carried out some impact assessment but the outcomes are not considered to be tangible outputs • There is limited diversity monitoring
Engagement menu for evidence base	<ul style="list-style-type: none"> • Targeted surveys used appropriately • People/customer banks • Innovative engagement tools • Capturing opinion, experience and insight to feed into evidence base 	<ul style="list-style-type: none"> • The menu has been limited but is recently being expanded with service improvement panels • More innovation and resources are needed to widen the engagement • Surveys have been used but to little effect, not feeding into influence • Insight is not currently sought or captured systematically
Learning from complaints and feedback	<ul style="list-style-type: none"> • Butterfly net to capture current issues – satisfaction and dissatisfaction, ideas and ideals • Learning mechanisms to feed into evidence base and improvement planning • Feed into evidence base 	<ul style="list-style-type: none"> • Medway has a people bank of over 800 names including 100 regular involved residents, but the use of the bank is very limited as yet • There is little evidence of learning and few mechanisms to capture the evidence

Essential element	Desired outcomes	Medway position
Evidence base and self-assessment	<ul style="list-style-type: none"> • Use of engagement and involvement mechanisms and butterfly net to gather evidence of feedback • Gathering of resident reality checks from inspection and quality monitoring to assess compliance against local and national standards • Performance measures and indicators • Cost measurement and value for money assessment • Benchmarking • Service review and challenge fed into the evidence pot • Peer review • Accreditation • External validation/ inspection 	<ul style="list-style-type: none"> • Resources are limited, few mechanisms are in place • There are no effective performance measures in place for resident involvement to monitor against • Benchmarking has been limited in the past but more recently some activity looking locally and nationally • External assessment has been carried out but no peer review • No accreditation gained • Some peer experience and knowledge sharing with locally based MHS • Value for money and cost measurement has been minimal. Some monitoring of the SLA with MeRGe but this has not been comprehensive or robust

Having these fundamentals in place will not automatically generate impact. Medway will need to embed its approach if tenants are to be empowered. The cement that will hold the framework together will require from Medway:

- **Commitment:** From the portfolio holder, cabinet, staff and residents
- **Cultural change:** The approach to involvement will require staff and residents to embrace the vision and be open to challenge, be honest about performance and capacity and be prepared to work in partnership
- **Resources:** Delivering involvement and empowerment will not come cheap. Staff time and energy (across all service areas) will be needed to drive through the change and sustain the longer-term vision. Budgets will need to underpin the strategy for change

- **Clear defined roles:** The component parts of the framework will require clear, defined roles and terms of reference to ensure the links are robust
- **Diversity inclusion:** To ensure that involvement and empowerment is all-embracing the framework must take into account the needs across all Medway customers. It must aim to be fully inclusive
- **Capacity and skills:** Staff, residents and board members must all work together to achieve the vision. Developing the role of residents as leaders in scrutiny and as co-regulators will require certain skills from all parties. Experience will need to be supplemented with training and capacity-building to fulfil the aims
- **Drive:** Developing Medway’s involvement and empowerment will require drive. The challenges outlined later in this report will need careful planning to implement the changes required to address them. Individuals, service teams and resident groups must be prepared to champion the vision, take responsibility for tasks and come together to review and assess impact
- **Flexibility:** Good practice is never set in stone: it evolves. How Medway progresses to meet the standards will evolve also. The principles now in play revolve around tailoring services and shaping the business to suit ‘local’ needs, however ‘local’ may be defined. Delivering local solutions for involvement and empowerment cannot be fixed in stone either. Medway must retain the flexibility to adapt to what works best for Medway people.

6 Getting behind the numbers – value for money review

The value for money assessment looked at the costs associated with providing resident involvement at Medway. The following sections look at our scrutiny of the key elements of Medway’s involvement expenditure. Much of this centres on MeRGe as, currently, the main channel for involvement.

6.1 The resident involvement budget

Medway's resident involvement budget for 2010/11 is as follows.

	£
Staff-related	38,714
Service level agreements	4,838
MeRGe	29,814
Other voluntary organisations	1,115
Other	1,432
	75,913

The staffing cost is the cost of employing one tenant participation officer, plus overheads and associated costs for transport and similar costs. We would expect a landlord of Medway's size to employ a member of staff for this purpose. There are clearly some diseconomies of scale for a smaller landlord such as Medway.

The SLA costs relate to the corporate support services provided by the Council. These include accommodation, postage, customer services and so on.

The funding made available to MeRGe is considered later.

A budget of £1,115 is available for grants to other voluntary organisations, which would appear reasonable.

The major item in the 'other' budget is a subscription to the Tenant Participation Advisory Service (TPAS) website. In discussion with officers, we established that this was of uncertain value for money. We recommend that this be formally reviewed, and discontinued if not considered value for money. The review should include consideration of whether better use could be made of this subscription to gain maximum benefit.

6.2 MeRGe

We examined the accounts of MeRGe for the 13-month period ended 31 March 2010, and discussed these with the organisation's office holders (Chair, Treasurer and Secretary).

The Council's budget makes provision for payment of to MeRGe of an amount similar to MeRGe's expenditure in the 13 months to 31 March 2010. However, MeRGe does have substantial reserves, relative to its annual expenditure. At 31 March 2010, notwithstanding the deficit of £7,195 recorded in the previous 13 months, it had net assets of £18,627. Just under £18,000 of this is cash in hand or in MeRGe's bank account.

MeRGe has been advised that it should keep a contingency of £9,000 in view of its responsibilities as the leaseholder of its premises. Whilst the correct amount to hold is a matter of opinion, the principle of holding a contingency is correct.

Turning to MeRGe's expenditure, we have assigned it to three main categories:

	13 months to 31.03.10	Full year
	£	£
Premises	9,717	8,051
Resident involvement	12,419	11,544
Running the organisation	7,315	6,970
	29,451	26,565

As well as showing the cost for the 13 months to 31 March 2010, we have also included our assessment of the 'full year' cost. This flexes those items which will vary with the number of months, and leaves those which will not (for example, auditing) unaltered. We have also adjusted for an abnormal gas bill within the 13-month period. Hence the 'full year' column is the amount which MeRGe would be expected to spend in 2010/11 if their activity was identical to the previous 13 months, and ignoring inflation.

We explain the costs included in each category, and consider the value for money achieved for this expenditure, below.

MeRGe premises

The costs include the rent paid for the premises to the Council, plus related insurance, utilities and other running costs. The total of £9,717 did include an abnormal cost (a gas bill covering three years), which added approximately £1,000 in respect of the prior years, so that the full year cost of £8,051 is a fairer measure.

The premises occupied by MeRGe consists of a single room whose use is sub-divided between an office area with desks and office equipment, a meeting area with a table, and a kitchen area.

The office is staffed by volunteers three mornings a week, and is sometimes used to meet with residents who have requested MeRGe's assistance. However, MeRGe accepts that such residents rarely initiate their contact with them by visiting the office. Normally, residents contact them by telephone, and are invited to the office for discussion. MeRGe estimate that they receive approximately one request for assistance per week.

The office and its equipment is also used by MeRGe to produce newsletters and generally to run the organisation.

The meeting area is used for a regular monthly meeting. Our enquiries about other usage were met with the statement that this usage is 'as and when'.

In our view, at a cost of £8,051, these premises do not represent value for money. The obvious solution would be for wider use of the premises to be made. For example, they could be used by housing officers for surgeries (MeRGe advises they have suggested this), and possibly other Council services.

However, there are two difficulties under current arrangements:

- The terms of the lease to MeRGe require one of the three office holders to be present when the premises are in use
- The existing configuration of the premises would not allow for conversations to be carried out in private.

We understand that the Council believes that it could find a small office for MeRGe within its main office building. We assume this would cost MeRGe less to rent, and would remove the responsibilities of managing the building which currently falls upon MeRGe's officers. Meeting rooms could be made available at the Council premises or hired around the district. MeRGe suggests the cost of hiring rooms might be around £50 per let.

In our discussions with MeRGe, they expressed some scepticism about availability of meeting rooms at the Council offices, and we would expect them to require some reassurance on this point. They also commented on availability of parking, although in our experience, this is equally a problem at their present premises.

Subject to the cost of the accommodation which the Council could make available, we would regard this as better value for money.

Tenant involvement through MeRGe

The breakdown of the 'full year' costs is as follows:

	£
Training	1,276
Travel and subsistence	3,129
Meeting attendance	6,099
Community activity day	1,040
	11,544

We understand that it has been agreed between the Council and MeRGe that the attendance allowances paid to tenants attending various meetings and associated tenant

participation events have been halved since March 2010, and that it has been agreed that they will be discontinued with effect from January 2011.

We calculate that travel and subsistence costs approximately £10 per person attendance at meetings, which seems a little high. We put this calculation to MeRGe's officers, who did not challenge it. They confirmed that the cost shown here is petrol for those using their own vehicles and taxis. They assured us that they arrange for taxis to be shared wherever possible.

We would comment that this arrangement is unusual; we are not aware of any other landlord who delegates arranging and paying for travel to meetings, and paying other expenses to attendees. This is normally arranged by the landlord's staff. It is possible that it would be more expensive for Council staff to manage this process than using MeRGe's volunteers. However, the Council would have control over expenditure made on its behalf, and could more readily satisfy itself about the value for money of this expenditure. The Council could consider letting a 'call-off' contract for taxis by competition.

Similarly, we would normally expect the Council to directly fund resident training and community fun days. Where supplies and services are bought from VAT-registered businesses, the Council would be able to recover the VAT. MeRGe is unable to make such recovery. Clearly residents should be fully involved in determining what training should be provided, and in the design of community fun days.

Running MeRGe

These costs can be broken down as follows:

	£
Accountancy, audit and bank charges	2,192
Newsletters and advice	3,822
Other	957
	6,971

The costs we have summarised as 'newsletters and advice' cover MeRGe's promotion of itself, its newsletters, and costs associated with its advocacy role such as telephone, printing and stationery. The activities covered by this £3,800 could be regarded as the 'core' activity, which we would commonly see a residents' association undertake.

The telephone cost, which does include broadband access, seems a little high, at £842 on a full-year basis. The information we have been provided by MeRGe on this suggests that a detailed review of this area could deliver savings.

The costs of accountancy, audit and bank charges represent almost one-third of the costs of running the organisation (bank charges are minimal at £25). We would suggest that the

need for a full audit be reviewed if MeRGe discontinues having its own premises, and managing Council funds for training, travel and so on. It may be possible to gain the assurance of probity, which the Council obviously needs, without having a full audit. This will ultimately be a matter for the Council's Chief Financial Officer, however.

The 'other' costs include £447 for the AGM. Almost all of this cost was incurred in advertising the event in two local newspapers (*Medway News* and *Kent Messenger*). We understand that the advertisement had minimal impact on attendance, and would suggest that alternative methods of promotion be explored in future.

Finally, there is also a cost of £181 for 'staff welfare'. MeRGe officers were unable to explain to us what this covered.

6.3 How does this stack up?

Our assessment is that overall, resident involvement is not currently providing as much value as it should be for the money spent. Just under 40% of the overall resident involvement budget is being spent through MeRGe.

There is no question that the MeRGe committee members are fully committed to resident involvement and have gained considerable and valuable skills over the past years. We consider that MeRGe has been accountable for the grant it receives, providing audited accounts and taking reasonable care to manage the grant, the organisation and the premises in Gillingham. MeRGe has provided challenge to the Council and has been the sole guardian of the residents' voice.

However, we consider that the overall impact of involvement in terms of service users having influence over the shaping of services and challenging performance has been very limited, in range and in scope, in that it has not engaged widely with residents across Medway and has not engaged systematically to produce tangible outcomes. This review has highlighted that a degree of modernisation is now needed to make it fit for purpose for the new regulatory framework and we conclude that the value for money cannot be demonstrated for the current provision.

We specifically recommend consideration of the following:

- Overall budget:
 - The TPAS subscription may not represent value for money. A more detailed look at the costs could lead to a decision to withdraw from the subscription; however, given the recommendations contained elsewhere in this report it may be more pertinent to consider how better use can be made of the subscription. Learning from best practice, benchmarking and expert specialist guidance is all required as Medway seek to move forward. The TPAS subscription can provide some support in all of this.

- MeRGE:
 - The premises and facilities in Gillingham cost a lot of money to maintain but are not returning enough in the way of outcomes and impact. The current lease is an obstacle and would need to be revised, but consideration should be given to extending the use of these premises to the housing team and/or relocating MeRGe to a smaller office or venue
 - The audit costs for MeRGe represent 8% of the overall budget, and this would of course increase if our other recommendations were followed. Whilst MeRGe needs to be accountable, less costly alternatives could be considered
 - The MeRGe budget includes items which we would normally expect a Council to be providing. This suggests that MeRGe volunteers are currently undertaking jobs which Council officers arguably should be doing, such as organising taxis, travel and training for residents. MeRGe may be offering lower admin costs as volunteers, but overall it is questionable whether this should be part of the resident volunteers' role.

7 Delivering impact

Medway has a range of strengths to offer in terms of resident involvement. However, these have been explored in previous mock inspections and health checks, so this review has focussed on looking forward to the challenges Medway faces to deliver maximum impact and top quality resident involvement and empowerment. This section summarises the key challenges identified in the review.

7.1 Key challenges

These key challenges are related to meeting the regulatory framework and national standards and to delivering real influence and empowerment for residents. All of the challenges need to be addressed and Medway will need to formulate action plans to rise to the challenges. Our recommended options in section eight of this report offer some guidance. The challenges are all interlinked; however, the challenge to implement structural change is possibly the most imposing, and is at the same time the top priority.

In summary, we consider the key challenges for Medway to be:

Local offers

These are a new and evolving dynamic that Medway must get comfortable with, alongside all other registered providers. Specific challenges will be:

- Engaging widely and effectively with service users
- Developing appropriate offers
- Implementing these offers

- Monitoring compliance and performance against local offers.

Compliance with co-regulation and scrutiny

This brings challenges to:

- Build the evidence base and self-assessment elements
- Extend and refurbish the structure to embrace scrutiny
- Develop the skills and capacity within the structure
- Change the attitude and culture to make engagement, scrutiny and learning from the evidence base routine.

Structural change

To develop co-regulation and scrutiny and to embed empowerment which ultimately impacts on service improvement, Medway will need to consider revising its current involvement framework. The proposed scrutiny framework, shown below in figure 7.1.1, incorporates the new service improvement panels and has already moved Medway on a great deal towards positive practice. However, clarity in the roles of MeRGe, as it stands, and the housing improvement board are one of the keys to making this framework effective.

Discussions with MeRGe have been very productive and positive and the residents themselves have recognised that the MeRGe that has been well established for the past 12 years or more now needs to modernise to play an effective part in the new approach to resident-led regulation. Figure 7.1.2 shows a draft revised framework which is the result of a workshop with MeRGe.

The notes of the workshop, shown in appendix two, offer explanation on the thinking behind the revised draft. In summary, the challenge under offer is to modernise MeRGe. Our recommendations would be to achieve this by dissolving it or transforming it to create a new vehicle with a different role such as a 'Tenant Champions' group. The leading resident scrutiny body would be the housing improvement board which would include representation from each of the service improvement panels and one from a new tenant champions group.

For Medway the structure also currently lacks a neighbourhood or area engagement element. This missing factor would help to develop local contact and engagement at area level so that influence from service users is not just through the service improvement groups. The focus at area level would be with the patch officer relationship developing neighbourhood plans and agreement or community blue prints to look at tailoring services and resources for the areas as a whole. Definition of area or neighbourhood would require consultation and the local offer engagement provides perfect opportunity for this.

The details of the linkages, functions and terms of reference for all the component parts need to be explored further in taking forward this option, but we consider this a good foundation for moving forward.

44 **Figure 7.1.1**

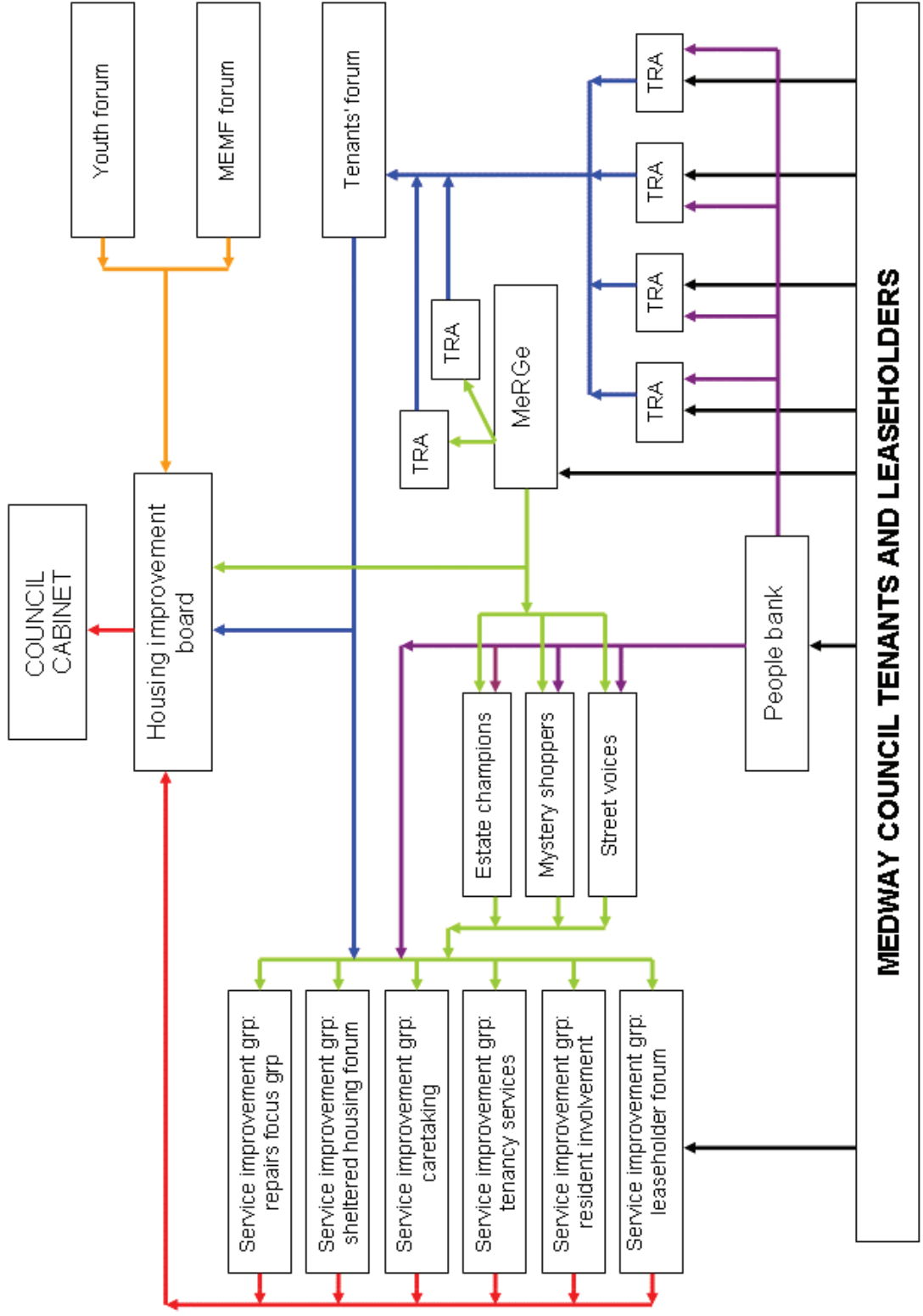
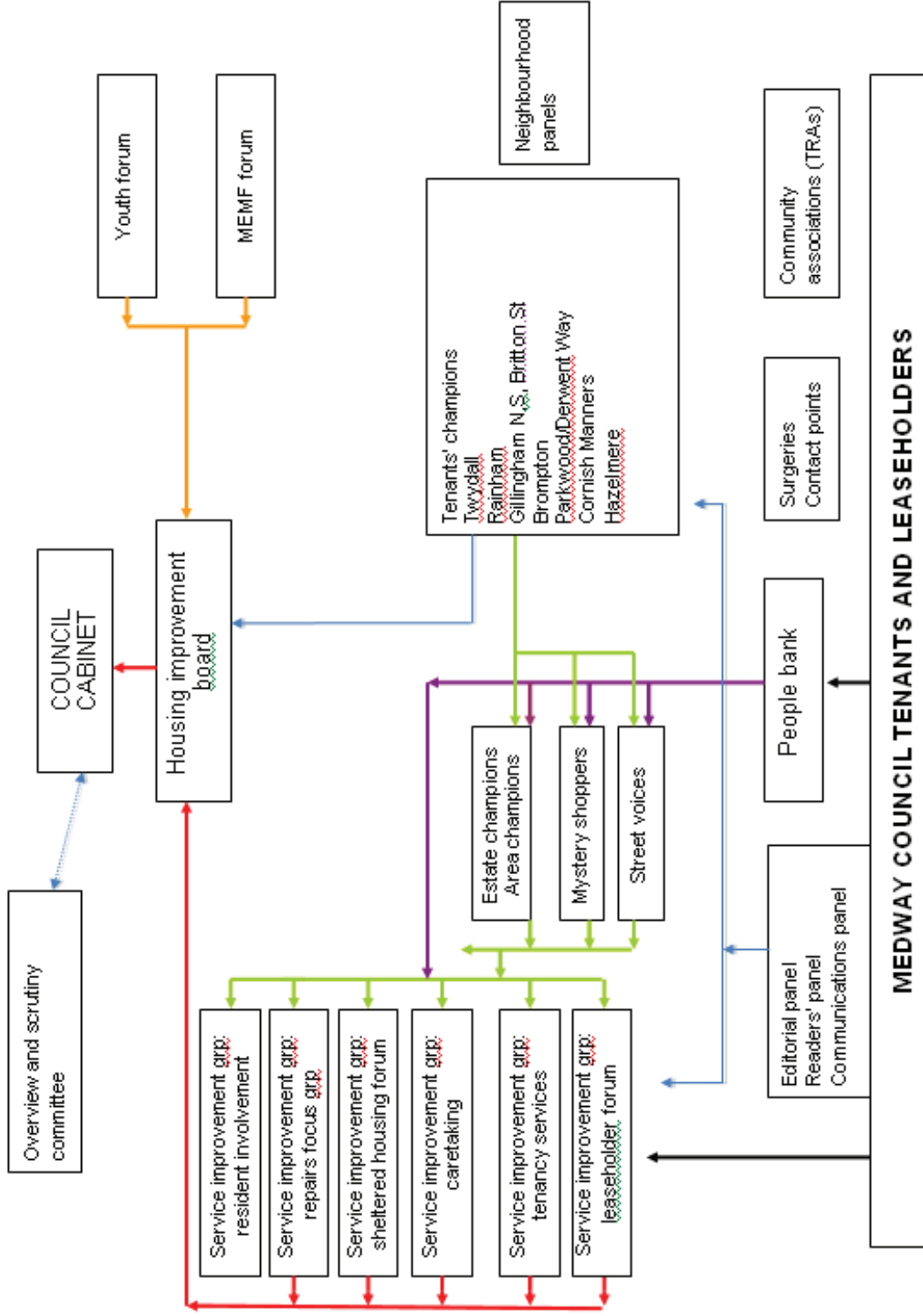


Figure 7.1.2



Resources

For Medway these are limited. Medway does not have a never-ending pot to fund and fuel the change, and as a local authority it is directly in the firing line for the impending government cuts. Specific challenges will include:

- Staff consider that their time is under considerable pressure already. Services must be delivered as a priority and staff do not yet consider that involvement and empowerment are all part of the day job. Resident involvement will be seen initially as an extra burden to the already fraught day job
- Currently the officer team has suffered from upheaval and change and is diminished in number. New team members could bring fresh thinking but will take time to bed in
- The tenant participation officer (TPO) post has recently changed; the new officer will need time to establish her approach
- Databases that are in place are not systematically linked and used to the full potential for targeting and profiling. IT is not well developed at Medway for supporting the needs of involvement and engagement. The resident involvement database needs to be linked to the profile database and formatted to enable tracking and monitoring for diversity and impact.

Strategic direction

This is required to drive through change and deliver impact. For Medway this will require:

- A wider range of champions amongst the staff, residents and elected members to act as ambassadors for resident involvement and empowerment
- Allocation of 'championship' to a dedicated project team or group. The new TPO must play a lead role in this but it is not solely the function of this post to drive through change. Residents and service team leaders must also be responsible for ensuring the change is acceptable, mutually beneficial and relevant to delivering outcomes
- Commitment to the strategy and action plan from all service teams, senior directors, existing involved residents and elected members.

Learning

Learning from feedback and service user experience is not at present a strength for Medway. Specifically, the challenge is:

- To develop a butterfly net of mechanisms to capture informal and formal feedback, complaints and 'hearsay'

- To put in place mechanisms to turn the captured experience within the butterfly net into shared learning and influence on service improvement.

Benchmarking

Benchmarking and learning from others is a valuable way to increase self-awareness and to improve internal skills and capacity to deliver real impact for resident empowerment. Medway has started to look outside and take into account alternatives. Expanding this and applying the learning will now be the challenge for Medway to rise to.

8 Medway: responding to the challenge

This section develops the challenges identified for Medway into four key themes. For each theme the issues are highlighted and a range of options outlined. In some cases there is only one option. Options are not mutually exclusive.

8.1 Four key challenge themes

The future for Medway lies within what can be categorised into four key areas where action is needed to embed and expand resident involvement and empowerment. The four themes have been identified for Medway as:

- Challenge theme one: modernising the framework
- Challenge theme two: tools of the trade
- Challenge theme three: building the evidence base and self-assessment
- Challenge theme four: driving through change.

The following tables outline the specific challenges within each of these themes, the issues attached to that challenge, the options for addressing the issues and rising to the challenge and consideration for developing the action plan.

In many areas of challenge a combination of options will be necessary to address the issues.

48 8.1.1 Challenge theme one: modernising the framework

Challenge	Issues	Options	Considerations
<p>Scrutiny framework</p>	<ul style="list-style-type: none"> Proposed Medway draft scrutiny framework (See figure 7.1.1) is a good foundation; however, discussions with MeRGe in this review have identified that clarity is needed MeRGe modernisation proposals will impact on the current framework and current proposals 	<p>1.0 Continue to adopt current scrutiny draft as fig 7.1.1:</p> <ul style="list-style-type: none"> MeRGe remains as now, but takes account of VfM review findings Housing improvement board established Service improvement groups develop capacity Agree protocols and formal links Implement options in challenge themes two, three and four 	<ul style="list-style-type: none"> Further consultation required with MeRGe and other involved residents to agree option Further consultation required to develop action plan for developing scrutiny framework Links to all challenge themes in determining action planning MeRGe has considered transferring role to become tenant champions If option two taken, careful consideration needs to be given to dissolution of MeRGe or best

Challenge	Issues	Options	Considerations
		<p>2.0 (recommended option) Adopt new approach based on scrutiny framework proposed in fig 7.1.2:</p> <ul style="list-style-type: none"> • MeRGe dissolves/transforms into tenants champions • Housing improvement board • Service improvement panels develop capacity • Agree protocols and formal links • Implement options in challenge themes two, three and four 	<p>approach to take account of MeRGe outstanding balance in account, handover of premises, SLA and lease of premises</p> <ul style="list-style-type: none"> • Terms of reference and clarity of role, scope, protocols needed for all elements of the framework • Any framework option will need to be launched, publicised and promoted to raise awareness amongst residents
MeRGe	<ul style="list-style-type: none"> • Review concludes that grant to MeRGe does not offer value for money. The cost of the premises and running MeRGe is not offering a good enough return of impact gained in contribution to the overall tailoring of services and scrutiny 	<p>1.0 Significant changes to MeRGe's current form, change name, review role and withdraw grant and premises based on VfM review findings Re allocate premises to Medway housing services</p>	<ul style="list-style-type: none"> • Notes of the workshop with MeRGe, included in appendix two of this report, show the considerations with regard to the possible modernisation to transform MeRGe into tenant champions

Challenge	Issues	Options	Considerations
	<ul style="list-style-type: none"> Review also concludes that MeRGe in its current form will not provide the wider engagement net and scrutiny role that the Regulatory framework requires MeRGe committee considers that MeRGe could benefit from modernisation to fit with new co-regulation scrutiny framework MeRGe residents are keen to remain involved and provide continuity of experience and knowledge MeRGe committee and involved residents currently offer coverage of a range of neighbourhoods and could provide challenge for these areas as tenant champions MeRGe residents agree that a name change is needed as many residents do not currently identify or wish to identify with it 	<p>2.0 (recommended option) Modernise MeRGe:</p> <ul style="list-style-type: none"> Dissolve/revise MeRGe: <ul style="list-style-type: none"> – Agree best approach depending on advice re allocation of grant funds in account Re-allocate premises to Medway Re-establish current committee as tenant champions 	

Challenge	Issues	Options	Considerations
<p>Housing improvement board</p>	<ul style="list-style-type: none"> • A key component of a scrutiny framework • Resident membership not yet finally agreed • No formal terms of reference yet agreed • Liaison, protocols and relationship to cabinet, service improvement panels, and the rest of the framework not yet in place • There is currently confusion about this proposed board and its name 	<p>1.0 (linked to option 1.0 above) Establish a housing improvement board made up of residents from:</p> <ul style="list-style-type: none"> • Service improvement group chairs • A MeRGe representative <p>2.0 (recommended option linked to option 2.0 above) Establish a housing improvement board made up of residents from:</p> <ul style="list-style-type: none"> • Service improvement group chairs • A representative from the tenant champions 	<ul style="list-style-type: none"> • The protocols for this board will be vital in ensuring impact and accountability • Clarity is needed to ensure this board is viewed as the resident scrutiny panel and not the overview and scrutiny committee • Developing this board needs considerations related to governance and capacity-building as outlined in the challenge themes below • Positive practice considerations to be taken into account, as outlined in appendix three of this report

Challenge	Issues	Options	Considerations
Resident inspection/quality checks	<ul style="list-style-type: none"> Weak element currently, lacking structure and tools No mystery shopping, void inspectors, repairs inspectors, complaints investigators or auditors No resource for investigation, insight as part of challenge 	<p>1.0 Establish resident inspection and quality monitoring</p>	<ul style="list-style-type: none"> Look to good practice elsewhere Action plan to develop this element: <ul style="list-style-type: none"> Recruitment drive possibly linked to a relaunch of the new framework Define roles and terms of reference, protocols for scrutiny Training, eg, HQN package, other packages available, share with other local providers Agree programme of activity to match scrutiny/local offers
Service-specific review	<ul style="list-style-type: none"> Service improvement groups now in place but still getting established, no real impact as yet Formal links to scrutiny not clearly identified and formalised Capacity of residents needs building to provide effective challenge and scrutiny 	<p>1.0</p> <ul style="list-style-type: none"> Create a new resident involvement improvement group to add to the suite, to drive through the revised framework, if this option is taken Develop protocol to feed challenge and scrutiny into central scrutiny role 	<ul style="list-style-type: none"> Good practice elsewhere to learn from Regular groups can develop capacity and offer consistency Service teams to support and facilitate the relevant groups and develop officer as well as resident capacity

Challenge	Issues	Options	Considerations
		<p>2.0</p> <ul style="list-style-type: none"> Continue to use ad hoc working groups as well as improvement groups to offer wider evidence and insight, feeding into the relevant improvement group Develop protocol to feed challenge and scrutiny into central scrutiny role 	<ul style="list-style-type: none"> Local offer consultation to inform priorities for service area groups to be formed Local offer consultation to act as potential pool for recruitment Training in scrutiny and performance management to be offered to all residents involved in improvement groups

54 8.1.2 Challenge theme two: tools of the trade

Challenge	Issues	Options	Considerations
TPAS subscription	<ul style="list-style-type: none"> VfM review identified that currently TPAS subscription is not providing value for money for officers TPO role has been interim, new permanent officer post now taken up 	<p>1.0</p> <ul style="list-style-type: none"> Discontinue subscription <p>2.0</p> <ul style="list-style-type: none"> Continue subscription and review benefits – pros and cons, investigate what it offers and what’s available. Look to actions recommended in this review and whether the subscription offers any support in this regard. Identify targets to make subscription better value for money 	<ul style="list-style-type: none"> Currently officers may not be making the most of subscription TPAS can offer guidance and support for residents Would subscription be better registered for housing improvement board than officers?
Customer insight	<ul style="list-style-type: none"> Profile data is key to effective engagement, scrutiny, improvement and business planning, tailoring for local services No defined strategy for using data and targeting involvement Resource issues – insight/performance/engagement/policy 	<p>1.0</p> <ul style="list-style-type: none"> Link profile data to resident involvement database Develop learning from customer insight strategy Develop protocols and systems for capturing insight and how it can be used 	<ul style="list-style-type: none"> Good practice available to demonstrate robust profile data capture and appliance, eg, targeted consultation for customer access, Paradigm Housing Developing Medway database and systems, will also require protocols

Challenge	Issues	Options	Considerations
	<p>all linked. Who is the champion? Direction and drive in Medway structure currently lies with Head of Service improvement and TPO – this needs to be embedded across all teams?</p> <ul style="list-style-type: none"> Lack of methods for gaining insight Lack of direction for learning from insight 	<ul style="list-style-type: none"> Allocate co-ordination role for tenant insight 	<ul style="list-style-type: none"> Apply profile data and targeting to local offers consultation to refine and focus the development of local offers
Butterfly net	<ul style="list-style-type: none"> Capture of ‘hearsay’, grumbles and praises is lacking Learning from this insight is not forthcoming Opportunities not currently exploited Frontline staff culture change needed to embrace the vision Support mechanism needed Commitment and back-up from managers needed Systems needed to process the learning 	<p>1.0 Extend and expand current butterfly net:</p> <ul style="list-style-type: none"> People bank Street voices Estate champions <p>Develop more ways to engage at service delivery level, neighbourhood/area level to capture feedback and insight. Ad hoc methods as well as regular insight gathering</p> <p>Develop strategy and action plan to include:</p>	<ul style="list-style-type: none"> Good practice is available Eg, Peabody’s ‘George’/Salix Homes’ community calls to action Local offers consultation could provide potential for ideas, awareness raising, recruitment to bank Developing an e-group//focus groups/surgeries Consider introducing Bromford Group ‘rant line’, by another name or similar tool for gathering hot issues and complaints Links to scrutiny, performance

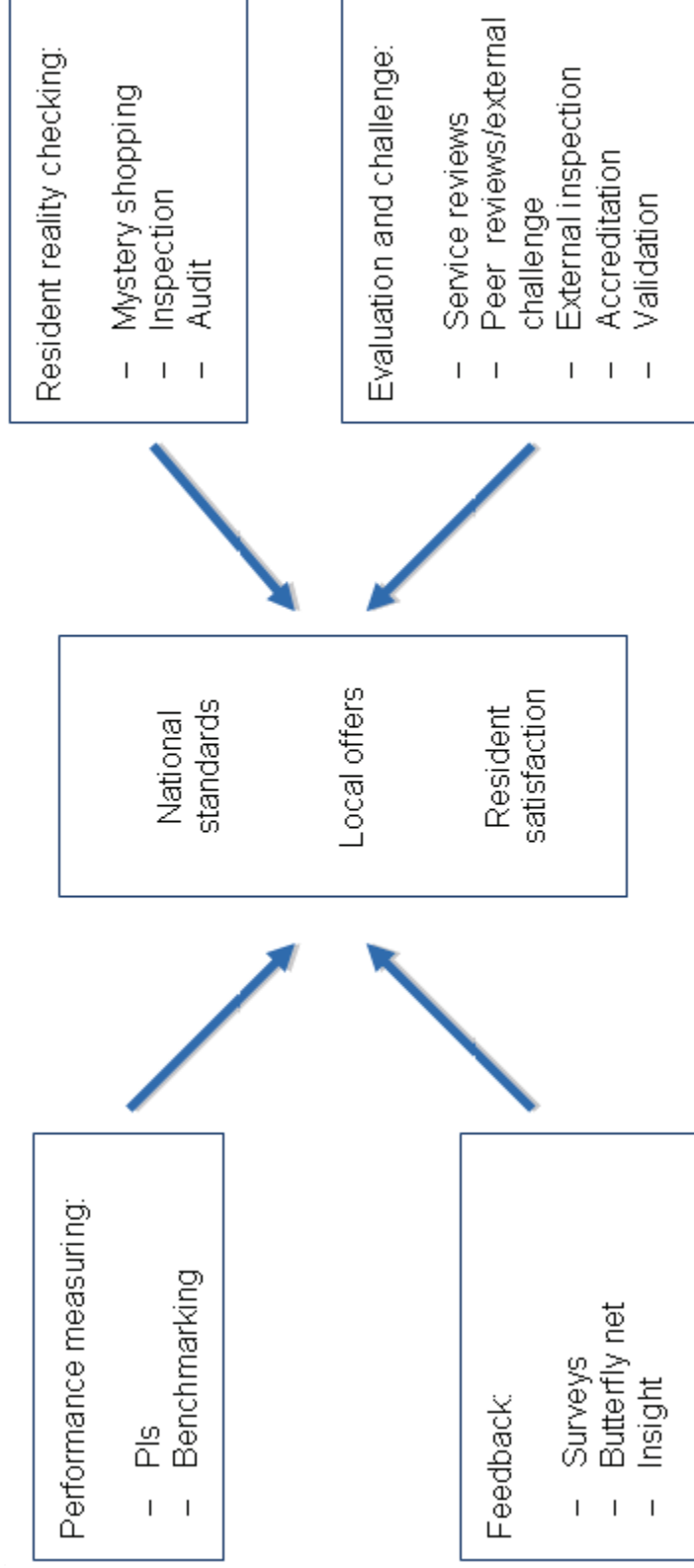
Challenge	Issues	Options	Considerations
		<ul style="list-style-type: none"> Link to customer insight and include in strategy as in option above Identify Medway triggers and calls to action and develop brand – link into a learning log and feed into scrutiny framework in all relevant places 	<p>measuring, challenge and self-assessment must be formalised</p>
Governance	<ul style="list-style-type: none"> Role and relationship of planned resident scrutiny with cabinet is not yet formalised Need to define roles in any new approach/structure Cabinet and new scrutiny panel relationship needs embedding and joint vision 	<p>1.0</p> <ul style="list-style-type: none"> Develop and agree roles and protocols for housing improvement board in relation to cabinet and overview and scrutiny committee 	<ul style="list-style-type: none"> Moving forward must include scope of housing improvement board activity and connection to any new scrutiny framework Primary relationships need clarifying – is this to be through director and senior team or directly with portfolio holder/cabinet? Consultation with cabinet/portfolio holder is key as resident scrutiny cannot work without accountability protocols in place

Challenge	Issues	Options	Considerations
<p>Area/ neighbourhood direction and engagement</p>	<ul style="list-style-type: none"> • Current missing element • Local tailoring fits with local offers • Patch officer relationship needs developing to embed engagement • Not all neighbourhoods currently represented 	<p>1.0</p> <ul style="list-style-type: none"> • Consider developing area panels for at least Gillingham, Rainham and Twydall management areas, potentially wider and more localised • Link these to feed into Housing Improvement Board and to Tenant Champions evidence bases • Recruit area panel members through neighbourhood engagement • Agree application/nomination/ election process for Housing Improvement Board – by advert in first instance as no panels exist yet 	<ul style="list-style-type: none"> • Neighbourhood agreements, neighbourhood plans, community blue prints etc are all excellent ways to develop local engagement and tailor service on an area basis • Bringing in other local providers, agencies such as police offers wider scope for tailoring • Consider pilots in areas where key issues such as ASB

8.1.3 Challenge theme three: building the evidence and self-assessment

The challenge facing Medway is to establish an involvement and empowerment framework that provides residents with the opportunity to engage at varying levels including an active role in scrutinising and challenging performance and acting as co-regulators alongside senior staff and cabinet. The other themes look at the challenges for developing the framework. This theme offers challenges as to how the framework delivers robust self-assessment through gathering evidence. The evidence that is needed will be a mix of qualitative and quantitative information. A good evidence base will require a variety of information sources as shown below:

Figure 8.1.3.1



Challenge	Issues	Options	Considerations
<p>Developing performance measures</p>	<ul style="list-style-type: none"> • Are current PIs relevant to national standards? • How are local offers to be measured • Who is measuring? Residents, cabinet? • Current scrutiny is limited in range and scope • Performance reporting is limited currently; annual report to tenant will require demonstration of performance against measures 	<p>1.0</p> <ul style="list-style-type: none"> • Develop suite of PIs for local offers including involvement and empowerment • Use scrutiny framework to measure and monitor the performance against these 	<ul style="list-style-type: none"> • Local offer consultation and working with current involved residents will offer insight into developing meaningful measures and link to annual reporting • Access to performance data must be unfettered for scrutineers in service improvement groups and at housing improvement board • Performance reporting must be meaningful for those undertaking the scrutiny • Moving forward could include commissioning specialist performance measurement expertise to work with residents and officers to help develop PIs
<p>Structural links for self-assessment</p>	<ul style="list-style-type: none"> • Current Medway framework is not robust in scrutiny and self-assessment • Links need to be formed to hold new framework together • Governance relationship is based on current framework 	<p>1.0</p> <ul style="list-style-type: none"> • Develop protocols for systematic reporting and information flow once options for challenge theme one and two have been agreed 	<ul style="list-style-type: none"> • The links must be in place to enable any scrutiny framework model to be live • New protocols will require clear roles and relationship between governance and scrutiny

Challenge	Issues	Options	Considerations
Capacity-building for scrutiny, challenge and self-assessment	<ul style="list-style-type: none"> Current residents do not consider that they have all the capacity and skill to deliver robust scrutiny Residents involved in service improvement groups are learning and developing as they go, but limited in range at present Resident inspectors' role currently non-existent 	<p>1.0</p> <ul style="list-style-type: none"> Develop skills assessment for involved residents Develop annual training and capacity-building programme for residents Develop training programme for resident inspectors 	<ul style="list-style-type: none"> Moving forward with involvement should provide this training and capacity-building tailored to suit Medway residents and framework Packages available for: <ul style="list-style-type: none"> Effective scrutiny Resident inspectors Accreditation is available for resident scrutiny and governance Training and capacity-building is available from a number of sources Good practice available for benchmarking and learning Consider securing better value for money by sharing training with other local providers
Benchmarking	<ul style="list-style-type: none"> Current benchmarking for resident involvement and empowerment is limited Some HouseMark data reporting Information not shared with residents formally 	<p>1.0</p> <ul style="list-style-type: none"> Develop a benchmarking matrix with residents to provide reports on what is meaningful 	<ul style="list-style-type: none"> South East or more specific Kent-wide network could offer some scope As part of capacity-building and matrix development, residents could look at/visit examples of good practice elsewhere

Challenge	Issues	Options	Considerations
	<ul style="list-style-type: none"> Resident challenge limited to MeRGe and just developing in service improvement groups Limited use made of benchmarking clubs and networks 		
Assessing impact and VfM	<ul style="list-style-type: none"> MeRGE undertook a resident involvement impact assessment but this is not following best practice models and was not Medway-wide Assessment of the impact of resident scrutiny and a new Medway approach would be required Value for money has been assessed in this review. Overall, there were issues of accountability and lack of robust monitoring. Any new-look framework will need robust and systematic VfM assessment throughout all parts of the structure 	<p>1.0</p> <ul style="list-style-type: none"> Develop a toolkit for assessing and reporting impact and value for money in resident involvement and empowerment Include in skills assessment key training needs for value for money and impact assessment 	<ul style="list-style-type: none"> Outcomes are the key focus of the national standards – outcomes for tenants rather than complex strategies are the way forward Best practice is emerging for scrutiny and co-regulation to investigate Value for money is an element that Medway could look for specialist support in developing a toolkit and training

Challenge	Issues	Options	Considerations
<p>External validation, inspection</p>	<ul style="list-style-type: none"> This review has provided external challenge Previous mock inspection provided recommendations and judgement Medway Housing/landlord services has not been inspected recently Peer review not undertaken but close relationship with MHS could be expanded 	<p>1.0</p> <ul style="list-style-type: none"> Build in avenues for validation and external assessment as part of the development of the new approach to resident-led scrutiny Include in evidence-gathering and self-assessment processes Include as standard element of annual reporting 	<ul style="list-style-type: none"> Given the current review of the TSA and the announcement about the Audit Commission it is not yet known where the external regulatory validation and inspection will come from Peer review is a good model for external assessment Critical friends are being used increasingly to provide external, independent validation and guidance Provider networks can also offer learning opportunities for best practice in this challenge areas Accreditation tools and bodies are developing as the new standards take hold

8.1.4 Challenge theme four: driving through change

Challenge	Issues	Options	Considerations
<p>Drivers for change</p> <p>Taking the lead</p>	<ul style="list-style-type: none"> TPO role is not a strategic or managerial post Senior management need to be involved in change management Service teams are integral part of taking forward the vision Cultural change needed to embed the vision To deliver change will require commitment, energy and co-ordination 	<ul style="list-style-type: none"> Develop and establish the new resident involvement improvement group, include residents (including Chair of current MeRGe) alongside TPO, Head of Service Improvement and relevant service team champions Develop SMART action plan for moving forward Allocate champions to each challenge theme and to major tasks and actions 	<ul style="list-style-type: none"> This group is critical to moving forward an involvement and empowerment initiative Developing a brand identity for a modernised approach would help with promotion and cultural acceptance. A team name that is well known and recognised as the driver for change would be a positive cultural change tool Consider monitoring, review and reporting protocols Exit strategy should be in place for this improvement panel or strategy to transform into a monitoring panel for the longer term
<p>Resources</p>	<ul style="list-style-type: none"> Traditionally resident involvement at Medway has been seen as the domain of MeRGe as the recipients of a grant, with Council responsibility being left to the TPO. More recently service teams have started to play a role 	<ul style="list-style-type: none"> A project group must include key senior managers and service team representatives Actions and tasks will need to be carefully planned to take account of resource issues 	<ul style="list-style-type: none"> This may be short-term pain for long-term gain Staff will need to be reassured that this is not an added burden The benefits of developing this approach will need to be clearly

Challenge	Issues	Options	Considerations
	<p>in the new improvement panels but have not been heavily involved in developing resident involvement in the past</p> <ul style="list-style-type: none"> Staff are concerned that developing resident involvement will increase what is already considered a heavy workload The TP budget may require increase to deliver the options in the report, but if the option to modernise MeRGe is carried through, funds will be released and will require careful planning to effect maximum VfM The number and range of residents currently involved is insufficient to sustain the vision 	<ul style="list-style-type: none"> Staff training and capacity-building to be part of the SMART action plan Medway budget holders to consider costs and requirements Action planning will need to include campaigns to promote and recruit new residents 	<p>defined to encourage staff and residents to join in</p> <ul style="list-style-type: none"> Allocate champions as noted above to spread the load
Commitment	<ul style="list-style-type: none"> Staff are very wary of resident involvement at present due to the historic challenge posed by MeRGe Portfolio holder, senior executives and heads of service appear keen to embrace the vision, but is this shared by all members and 	<ul style="list-style-type: none"> Local offer signed charter/agreement for resident involvement and empowerment developed as part of local offers. Signature by portfolio holder and leading resident representative(s) Relaunch campaign to 	<ul style="list-style-type: none"> To a certain extent a sales and marketing approach is required to change perceptions amongst staff and residents 'You said, we did or are doing' reporting will help to embed the impact and demonstrate change

Challenge	Issues	Options	Considerations
	<p>officers?</p> <ul style="list-style-type: none"> Medway must commit to the vision if it is to be achieved 	<p>accompany signing</p>	<p>publicly</p>
<p>Targets Monitoring progress</p>	<ul style="list-style-type: none"> SMART project planning and management are essential to successfully driving through the change Actions need to have target dates and key milestones agreed Local offers must be in place by April 2011 The annual report must be published by October 2010 and each year thereafter Accountability for progress and delivery of an action plan is good practice 	<ul style="list-style-type: none"> Project group/resident involvement improvement panel to agree SMART action plan timescales, deadlines, milestones 	<ul style="list-style-type: none"> Relaunching any new framework, charter could fit well with the launch of local offers prior to April 2011 Accountability for progress could be through reporting to: <ul style="list-style-type: none"> Senior management/exec team Cabinet Housing improvement board once fully set up All residents through newsletters and updates on the website Staff briefings

9 Developing local offers

During the challenge workshops a number of ideas were identified for developing local offers within the resident involvement and empowerment standard and for using the conversation opportunity to develop ideas further. Medway can explore these further:

- A new-look resident involvement structure could be the basis of a local offer for resident involvement. This would incorporate the housing improvement board as a scrutiny panel and the transformation and modernisation of MeRGe as tenant champions
- Local offer conversation and engagement could seek to establish what residents want from resident scrutiny and resident-led regulation to help set the priorities and measures for systematic scrutiny and performance challenge
- According to residents who took part in this review, the stock in Medway seems to lend itself to geographic area definition. The tenants identify with certain patches, towns and estates. Local offers could seek to define these areas and seek views on the perceived and real differences between the areas with a view to developing area-specific offers for resident involvement. For example, if anti-social behaviour (ASB) is a particular issue in Brompton or certain parts of Gillingham it may be more appropriate to offer local opportunities for these residents to engage with Medway officers at a local level. ASB panels or wider neighbourhood forums could offer opportunities to engage and work with local residents towards management and solution of the issues. Local agencies such as the police could also be invited to join
- Area-based localism was considered to be the most appropriate definition for Medway
- Sheltered housing appears to have some particular issues at present and it was suggested that this specific service should offer some 'local' offers and standards that may differ from those offered to general needs tenants across the borough. Window cleaning is an example where it could be offered to some and not others, according to local offer consultation.

10 Moving forward

This report highlights the challenges that Medway faces and offers options for addressing these. Overall, making improvements and instigating change will require commitment, energy, drive and appropriate action planning. There are a number of considerations that will help Medway to move the project forward effectively. These are outlined below.

10.1 Quick wins

A number of quick wins have been identified which will help to kickstart phase two to embed the change of culture:

- Agree option regarding modernisation of MeRGe
- The local offer conversations offer opportunities to engage with residents, sow seeds for new any agreed new approaches, agree priorities and develop ideas further. The local offer conversation action plan, format and scripts can incorporate specific questions to address in relation to options in this report
- Develop a brand name for the new-look Medway involvement and launch this as a local offer publicising the change and what impact this should have
- Establish a resident involvement service improvement panel to drive through the actions and monitor progress
- Establish a dedicated project team – perhaps from the new panel as above, with the TPO and relevant officers
- Agree budget allocation for moving forward
- Consider employing a challenge mentor to bring in external vision and experience. (The review did not have the opportunity to assess the skills of the new TPO appointed very recently. It may be that this new officer can provide much of this). The mentor could be a local individual skilled and experienced in this type of work, or a registered provider who is ahead of Medway in terms of resident involvement, or a consultant with relevant experience. Value for money is a key factor and the alternatives should be costed and assessed. Confidentiality and local sensitivity may also be a factor for residents. The intention would be for the mentor to work with the resident involvement service improvement panel to support and offer guidance with:
 - Agree detailed action plan, issues to consider for dissolution of MeRGe
 - Define an agree role and terms of reference for tenant champions
 - Define and clarify roles of each part of the resident involvement structure
 - Developing the skills of the housing improvement board and involved residents throughout the framework
 - Developing the capacity of residents to act as inspectors and quality auditors.
- Publicise a scrutiny framework, once all of the above has been clarified, for residents to understand how it all fits together and where they can play a part.

10.2 Making it happen

This report simply summarises the findings from the review and records the recommendations for moving forward. Making the change happen will now require the following action:

- Consulting further with MeRGE and other involved residents on the options for change
- A dedicated project group must work up and refine the options following on from this consultation and bringing in the local offer conversation findings
- Consultation with the cabinet and portfolio holder in terms of developing the terms of reference for the scrutiny role for residents and the relationship to governance
- Develop a SMART plan following agreement to the chosen options
- Identify and name champions and drivers from the project groups and allocate responsibility for tasks from the SMART plan
- Develop indicators and measures for monitoring progress and performance against the change as well as for the long-term self-assessment
- Develop tools and assessment measures for assessing the costs and value for money associated with delivering the options.

Appendix one – challenge workshop slides

Medway Council
Resident involvement – impact and VfM review
Challenge workshops 12/8/10

Angela Wheeler
HQN Associate

hqn

consultancy@hqnetwork.co.uk 0845 4747 004

Aims of the session

- Introduce me and you
- Why are we all here?
- To get to grips with what is changing and what this means:
 - For Medway Council
 - For you
 - For MeRGe
 - For all your residents
 - For all registered providers
- To agree the challenges
- To look at how to get fit for purpose

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Who am I... and so what?

- Associate with HQN for past 11 years
- BA (Hons) in Housing
- Previously frontline in housing management and development
- Specialism in resident involvement, access, customer care
- Experience of over 20 mock inspections
- Critical friend and independent advisor
- Involved with TSA national conversation and development of the standards
- HQN evaluated the pilots for local standards
- Closely watching what emerges from the coalition

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What am I doing here?

- Mission: review impact and VfM of resident involvement
- Critical friend and coach to get you fit
- Feeding into your own local offers
- Review of resident involvement:
 - Impact – what are you achieving?
 - VfM – is it worth it?
 - Focus on fitness for purpose to comply with regulatory framework
 - Offer independent, external, best practice view
 - Offer guidance and advice for developing tenant empowerment

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Health warning!

- This may get uncomfortable!
- Change is inevitable



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What about you?

- Who are you?
- What is your job?
- How long have you been in the job?
- Any experience with other registered providers or 'private sector'?
- What are you doing here?
- Do you want to be here?

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Changing context



As these quotes demonstrate:

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Changing context ...(cont'd)

Nick Clegg:

- "We need radical change that puts power back in the hands of the people. Only by bringing down vested interests and giving people real control over their lives will we build a Britain that is fair"

David Cameron:

- "We know that when you give people and communities more power over their lives, more power to come together and work together to make life better – great things happen"

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Changing context ...(cont'd)

And Grant Shapps:

- "I want to see a system that puts tenants fundamentally in the driving seat for the first time... real tenant empowerment"
- "[With regard to regeneration] Instead... of impenetrable bureaucracy, we will encourage power to be exercised at the lowest levels of local government, by which I mean parish, ward, but also street level... to force faster change directed by the very people it will affect"
- "The [regulatory] framework developed by the TSA... [for]... excellent tenant services will remain... Mr Shapps claims to 'agree with virtually every word' in the... document which he describes as 'great work'" (Inside Housing)

Localism is here to stay – and the locals will be empowered

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How does this change things?

- TSA is now your regulator too
- TSA believes it will be around until 2012 at least
- Subject to major review of who will regulate but framework remains
 - No overarching watchdog for service improvement?
 - Inspection?
- **The council scrutiny mechanism, and how tenants scrutinise, is now the 'backbone' of regulation**
- This reflects the new localism – remember David Cameron's quote

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It's all about empowerment

- Standard number 1 of 6
- Co-regulation
- Customer service
- Choice
- Complaints
- Responding to diverse needs
- Insight and shaping
- Value for money
- 'Tenant involvement and empowerment'



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So...



'Empowerment' = 'the opportunity to influence'

'Empowerment' = 'effective involvement'

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Empowerment = co-regulation

Councillors and officers in partnership with tenants



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How does the TSA expect tenants to be involved?

- The TSA has developed six national standards under following headings:
 - Tenant involvement and empowerment
 - Home
 - Tenancy
 - Neighbourhood and community
 - Value for money
 - Governance and financial viability
- All registered providers are obliged to comply with these (local authorities exempt from the governance standard)
- Local offers are key to compliance
- Annual reports

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How does the TSA expect tenants to be involved? ...(cont'd)

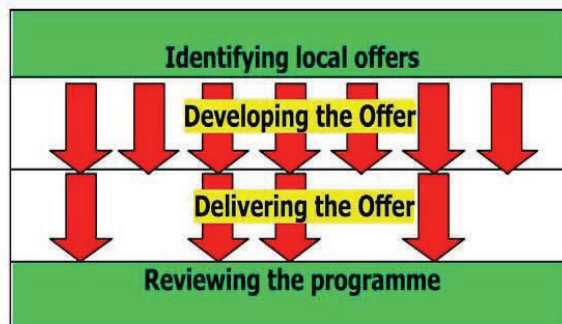
'No one size fits all' – let 1,000 flowers bloom



Meaningful engagement = communicating with customers to deliver effective involvement

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Engagement in the new world



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Engagement in the new world ...(cont'd)

Identifying local offers	<ul style="list-style-type: none"> Identifying services subject to 'local offers' Resourcing and timetabling their development
Developing individual offers	<ul style="list-style-type: none"> Developing the offer and it planning its delivery and management Tenants signing off the offer Launching the offer
Delivery	<ul style="list-style-type: none"> Delivering the offer Monitoring the delivery of the offer and its impact on services and consumers Adjusting the offer and/or its delivery
Review	<ul style="list-style-type: none"> Reviewing the offer Reviewing the programme Preparing the annual report

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Where? What is 'local'?

- Place
- Demographics
- Organisational



- Dales has some challenges in terms of place!

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Which services?

No one size fits all

- Must consider:

- Repairs
- Involvement
- Estate services

- Nothing to stop offers for other services

- If tenants say no – OK, but prove it, show the evidence

- Single service or range in locality

- VfM is key. Some say local offer = where can we make cuts



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Who are the customers?



For each offer suggested, identify and consult with all the customers

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Engagement in the new world: developing and delivering local offers



- The subject of the toolkit – to be published on TSA website

How different is this to 2009?

- Goodbye KLOEs
- Regulatory framework is now THE driver
- Local offers = key compliance element
- Annual reports are your shop window
- Intervention will now be triggered by:
 - Customer complaints about delivery failure
 - Scrutiny of annual reports
 - Compliance with local offers and framework standards
- Inspection... under review but there will be some mechanism in place
- Self-inspection/co-regulation/resident scrutiny is your key

In 2010 and beyond, it's about...

- Doing things differently rather than adding to costs:
 - Are you delivering impact? What impact are you aiming for?
 - What are you getting for your money? Is this in line with expectations?
 - How can you spend more wisely?
 - Review governance, accountability and openness of organisation's decision-making structures – where is the resident scrutiny?
 - No more collation of organisational performance or satisfaction statistics – instead, are the customers satisfied local offers are being delivered?
 - No organisational resident engagement strategies – rather tailored support to customers to engage meaningfully at local level
 - Local managers with engagement, communication and negotiation skills will be at a premium – customers are the boss!

A major change in management culture

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Complying with all this

- Annual reports to be published by 1 October each year produced for tenants and for the regulator – on how standards (including local offers) are being met
- Self-assessment – tenant scrutiny, external validation, benchmarking, peer review, etc
- All tenants offered a wide range of opportunities to influence strategic priorities
- Consult and act reasonably in providing tenants with opportunities to agree local offers
- Provide tenants with a range opportunities to influence standards, scrutinise performance and develop the annual report
- Build tenant capacity so they can be effectively involved

AND...

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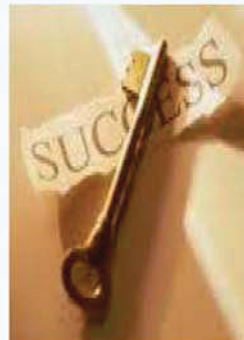
There's more

- Consult on the desirability and scope of local offers
- Give opportunities to agree local offers with tenants by no later than April 2011
- Report local standards performance to tenants
- Arrange for tenant monitoring and scrutiny of local standards (where agreed)
- Provide a system of redress if local offers are not being met

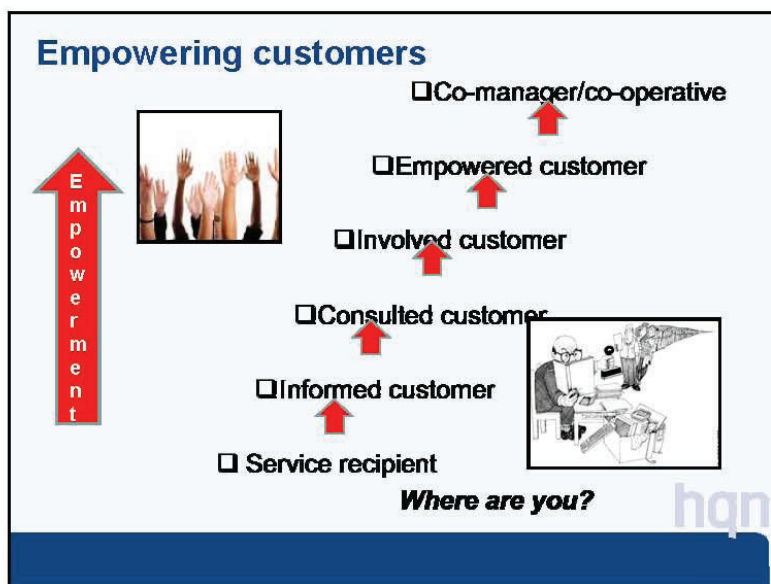
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Your key to the door

- Local offers:
 - 'Locally' consulted
 - 'Locally' agreed
- Annual reports:
 - Performance against standards
 - Performance against local offers
- Scrutiny:
 - Capacity-built residents
 - Capacity-built staff and board
 - Open mechanisms for challenge
 - Comprehensive quality checking
- No complaints!
- 100% satisfaction guaranteed!

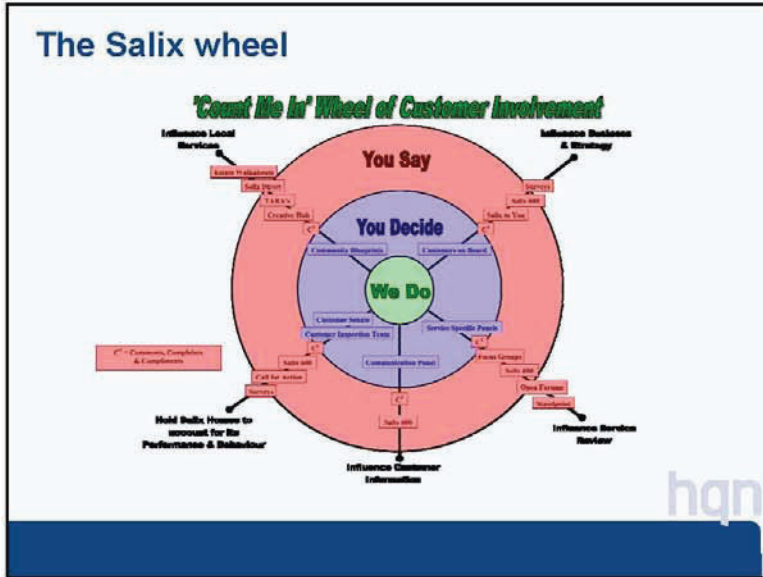


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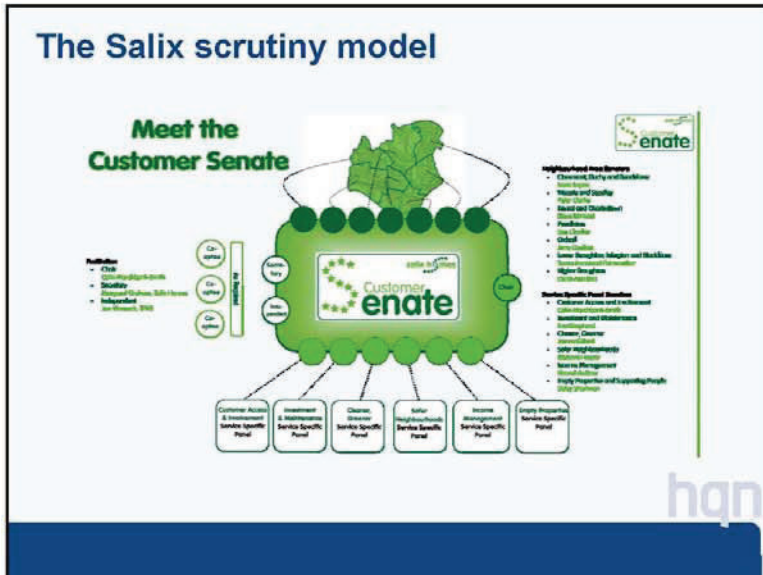


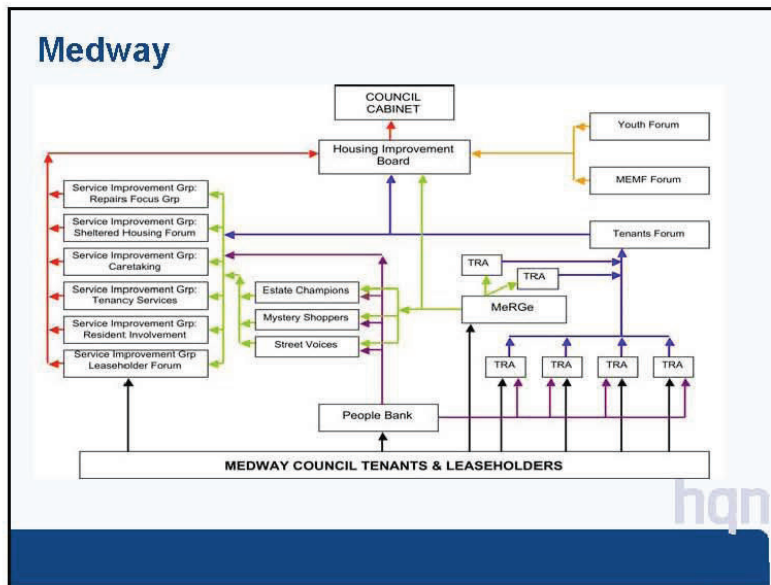
- ### The fundamentals you need
- Formal resident scrutiny body(ies) and mechanisms
 - Regular service-specific groups:
 - Consultation, review, partnership
 - Performance challenge
 - Neighbourhood balance and tailoring
 - Resident inspection, quality monitoring
 - 'As needed' work groups, focus groups
 - Database, people bank
 - Learning from complaints and feedback
 - Clear defined roles
 - Diversity inclusion
 - Capacity and skills
 - Resources
 - Commitment
 - Champions
 - Drive
 - Flexibility
- Local offers at the heart of the matter
- hqn

The Salix wheel



The Salix scrutiny model





Are you fit for this purpose?

- How do you and your services fit in with this?
- Medway Housing's current toolbox for involvement:
 - How do you engage, involve and empower now in your service area?
- Is this going to cut the mustard?
- What are the challenges and barriers?
- What would be on your wish list for change?

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What next?

- Residents' challenge workshop
- 'Getting behind the numbers'
- Time on-site to investigate/challenge further
- Draft report and options
- Debrief session
- Over to you to make it happen
- Meet framework requirements – ongoing...
 - Annual report
 - Local offers
 - Standards

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Appendix two – notes from MeRGe challenge workshop 25 August 2010

The group looked at the proposed resident involvement structure that had previously been discussed with MeRGe.

The aim of the exercise was to think about:

- The current strengths
- The need to achieve impact
- The need to comply with TSA regulation
- How to make the best of our strengths
- What framework would be best to support true tenant empowerment.

Overall, the conclusion was that the recommendations should be:

- To change the role and name of MeRGe, dissolving MeRGe
- Create new tenants' champions out of the current MeRGe committee and redefine the role
- The housing improvement board to be the main scrutiny panel for residents
- The housing improvement board to be made up of service improvement panel resident chairs and a rep from tenants' champions
- Create a new, possibly temporary, resident involvement service improvement panel.

MeRGe members made the following comments and raised some questions as follows:

- All agreed that the current position for MeRGe does not serve all residents best in looking at a new structure
- All agreed that MeRGe members should still play a valuable role in:
 - Continuity
 - Sharing best practice, knowledge and experience gained over so many years
 - Effective scrutiny and developing the skills of others.
- All except one member felt that for the new approach to be effective, the name and role of MeRGe should be changed
- MeRGe felt that a modernised MeRGe by a different name and different role could become tenants' champions

- Current MeRGe residents who are most committed and involved currently live in the following areas and would seek to be champions for these areas:
 - Twydall – Mary
 - Rainham – Ron and Ray
 - N Gillingham, S Gillingham, Britton St – Mary and Mick
 - Brompton – Shirley
 - Cornish Manners – Eddie.

The group felt that this would leave the following areas with no one to champion and would need to recruit to these vacancies:

- Hazelmere
 - Parkwood/Derwent Way.
- This would mean a re-branding for MeRGe to become tenants' champions
 - The tenants' champions would want to meet together before scrutiny meetings to gather evidence and challenge and to prepare for the meetings
 - Query whether street voices are the same as estate champions – need to define role or could be a package of area/estate/street/tenants' champions
 - All discussed the fact that if MeRGe ceases to exist in its current state it would no longer run the office, no longer be given any grant, so the role of the new tenants' champions and resource requirements would need to be clearly defined
 - Further thought needs to be given to the dissolution of MeRGe to comply with the constitution and SLA and ensure that the best way forward is taken with the outstanding funds in the MeRGe account
 - Resident were keen to retain some access to the office and a telephone line, desk and email to carry out the role of tenants' champions and offer all tenants access to their experience and advocacy role – they felt that a desk in the office, equipped, would suffice
 - Residents felt that the best use of the office would be to locate the new TPO here and have a facility for estate/housing officers to use for surgeries or a base when out and about. It could also be used for residents' meetings or meetings/interviews with residents. The layout may need to be changed to incorporate these changes and functions
 - The group discussed how the housing improvement board will be the main scrutiny panel – meeting with cabinet, portfolio holder and senior staff – the make-up and role, terms of reference need to be clearly defined yet

- The group felt that the housing improvement board could be made up of residents from the service improvement panels, one representative from the tenants' champions
- A new resident involvement service improvement panel was considered a good idea, at least temporarily, to drive through the changes that are needed and to oversee compliance and monitor performance – the role, terms of reference and aims need to be agreed. It was felt that Mary, as Chair of current MeRGe, should chair this new panel. This would also mean that she would get a place on the housing improvement board
- The group also felt that surgeries and/or a contact point would be a good opportunity for officers engaging with residents – to capture evidence and issues as part of the butterfly net; but the links to how they filter evidence and learning into the scrutiny framework needs to be explored further
- Likewise community associations
- The editorial communications panels are also key to empowerment and need to be brought into the structure to ensure that feedback leads to learning
- The group felt that local offers could lead to the development of area or neighbourhood panels – also in line with TSA regulation – so these could be led by officers and link to the tenants' champions, service improvement panels and through these to housing improvement board – the links for reporting and protocol need to be explored further and these could take a lot of resource to set up, but would achieve the aim of localism.

Appendix three – developing a resident scrutiny framework

Guidance notes for Medway Council in developing resident scrutiny

The housing improvement board

The housing improvement board should be in place to scrutinise and recommend improvements to services offered by Medway and should be formally recognised within the governance structure of the Council.

The structure should ensure that residents are measuring, testing and monitoring the services they receive and residents are influencing the development of the business.

The housing improvement board is the recommended vehicle by which Medway will provide resident-led scrutiny and co-regulation in line with the Regulatory Framework. As such, this board must be made up of a resident majority. To be truly resident led, the presence of Council officers and elected members must not inhibit or interfere in anyway with the residents' role as scrutineers.

For Medway, given the governance structure, it is recommended that the portfolio holder for housing attends formal housing improvement board meetings to provide the link with Medway Council. It is recommended that the chair of the housing improvement board should be independent of the Council. This should ultimately be a resident who has been given the opportunity to develop the appropriate skills. However, whilst the resident capacity building is on going and in order to establish the board it would be worth considering selecting an interim, independent chair with the right skills and experience. We recommend seeking a chair who can commit to not only leading and developing the board but also to supporting and coaching their fellow housing improvement board resident members.

Membership of the housing improvement board should be majority residents. There are various options for where the resident members are recruited from. Positive practice suggests that if service specific groups exist that the chairs or resident leaders of each of these should be offered a place on the main scrutiny panel. In Medway's case it would be appropriate for the chairs of the service improvement groups to be automatic members of the housing improvement board. It is also considered positive practice to include resident membership from a wider range such as area or neighbourhood representation or from residents who offer diverse experience and characteristics pertinent to Medway's resident profile.

The housing improvement board may wish to agree to offer places for co-optees, from time to time, to allow the board to benefit from fellow residents, local elected members or local independent people with experience and knowledge relevant to the subject or service under particular scrutiny.

It would be prudent to develop and agree some terms of reference for this board and a protocol agreement with the Council and any council committees such as the overview and scrutiny committee. Whilst this housing improvement board cannot replace the role of the

overview and scrutiny committee (OSC) it will play an important role in providing reports and information to the OSC on the housing service perspective. The aim should be for the housing improvement board and the OSC to work in harmony, with the housing improvement board providing evidence and monitoring in the Council housing service arena and occasionally raising challenges, where appropriate, for the OSC to investigate further and vice versa for the OSC to call on the housing improvement board to investigate and report on issues of concern.

Positive practice suggests that the main resident scrutiny group will develop an annual programme of work and undertake a minimum of three scrutiny exercises each year as well as regular monitoring against a standard agenda. The topics for scrutiny can be identified in various ways such as:

- From a range of options put forward by the executive management team
- An area of particular interest to the group
- From any referrals for scrutiny by the service specific groups
- As a result of a 'community call' for action by a group of customers or as a repetitive area of complaint.

The 'community call for action' is a phrase used by one organisation and Medway may choose to develop its own phrase. This is however, a key part of triggering scrutiny reviews and challenge. This call for action should be formalised to offer a systematic route for complaints and issues to be raised by residents.

Best practice has shown that the some groups use a scoring matrix to prioritise the topics of scrutiny and the scrutiny group then publish a forward plan of scrutiny. However, should the housing improvement board in Medway's case, accept a 'Community Call for Action' it is probable that the relevant service area will be scrutinised as soon as any ongoing scrutiny is completed and consequently the forward plan will be updated.

As a result of the scrutiny exercise, an improvement plan is created and then monitored by the relevant service specific group with regular updates to the main scrutiny group.

Should the landlord fail to deliver the improvement plan, positive practice suggests that the housing improvement board, in this case, should have the power to serve a 'Notice of Intent', a feature developed by some organisations that allows the residents to seek the support of the Council to consider their grievance should the process fail.

There is emerging good practice relating to the powers of the resident led scrutiny group, in this case the housing improvement board. It is recommended that it have a range of powers and terms of reference that support its role. These being:

- Unfettered access to performance information, benchmarking data and customer feedback

- The ability to commission independent evidence gathering through customer inspection team and other resources
- The ability to hear evidence from officers, partners and customers on request
- A formal duty on the Council and executive team to respond appropriately and in timely manner to requests and recommendations
- A requirement that the Council/executive team develop and implement improvement plans that have been agreed with the housing improvement board
- Clear mechanisms for redress for non action:
 - A formal ‘notice of intent’ served on the Council and a prescribed duty to respond
 - Referral of the matter to the a.n.other independent body to be defined as independent and relevant
 - Request for intervention by TSA/regulatory bodies.

Most resident led scrutiny body such as the Medway housing improvement board will be responsible for the annual resident reports, some have an appendix that shows the annual impact of the tenant led approach on service delivery and performance.

There should also be in place a mechanism for succession planning and progression for those who are interested to do so.

Service specific scrutiny

The service specific improvement groups should eventually have the delegated performance monitoring and scrutiny role for the operational service areas. Therefore, the key elements section below equally applies to these groups.

Performance information provided should be relevant to the service group. Agreed terms of reference are recommended for all these groups. Developing an annual work plan with group members for each group is a good way of adding structure and focus. An annual review from each group reporting on the outcomes and achievements would provide robust evidence of the impact.

These groups should have defined and agreed protocols for reporting to the Housing Improvement board as the main resident scrutiny body.

Regular reports in a standard format for all groups would be recommended. The nominated representative from each service improvement group could be tasked with presenting these regular reports and updates to housing improvement board.

The make up of the service improvement groups should be a majority of residents with particular interest and experience of that service area. Ideally, residents should be recruited to offer a diverse profile range to suit Medway and the service under scrutiny.

Officers should attend to support the group and provide information. Elected Council members may be invited to attend as appropriate but not be included as members, unless previously agreed with residents.

Key elements required for resident led scrutiny:

- Regular and routine information provided covering; performance targets, actual performance, commentary on performance, trends quarterly, annually, performance as compared to local and peer landlord organisations
- Information to be provided in a format and style that has been agreed with scrutiny members
- Support to familiarise and understand the complex performance information provided
- Regular and routine challenge of performance of all service areas by residents, feeding
- Regular, routine, systematic and robust mystery shopping, tenant inspection, resident quality control
- Regular, routine programmed service/strategic reviews leading to action plans and further review
- Service specific challenge opportunities
- Tenant trigger mechanisms
- Resident quality monitoring/inspection activities
- Governance framework willing to devolve and delegate decision making powers to resident scrutiny framework
- Agreement to routes for mediation/conciliation if a governance versus scrutiny impasse is reached.

To deliver the above:

- Capacity building and training
- Diverse range of residents involved to reflect Medway profile
- Medway resources to support and develop
- Capacity developed resident scrutineers
- Roles for non scrutiny type resident involvement

- Routes to governance and decision making
- Decision making powers devolved and delegated within resident scrutiny framework
- Information presented and provided in easily digestible formats
- Openness and transparency from Medway on financial information and performance information – provided to scrutiny residents
- Information available for scrutiny residents on local landlord comparison.

Developing a resident scrutiny framework for Medway

In order to provide a draft framework for Medway resident scrutiny the following issues need to be discussed and agreed:

- What/where are the triggers for calls to action for Medway, how can these be brought into the frame?
- What are the plans for regular, programmed reviews and scrutiny exercises – what is planned already for review for 2010/2011?
- What service specific panels exist now and plans for developing these?
- What performance information is to be provided to the scrutiny body(ies)
- What powers will/should the scrutiny body(ies) have?
- What resources are available for the scrutiny body(ies)?
- Governance and decision making delegation and devolvement – how far can this go with Medway?

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Or call us on 0845 47 47 004 or visit: www.hqnetwork.co.uk



BUSINESS SUPPORT OVERVIEW & SCRUTINY COMMITTEE

27 JANUARY 2011

HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2011/2012

Report from: Deborah Upton, Assistant Director (Housing & Corporate Services)

Author: Andy McNally-Johnson, Senior Accountant
Deborah Upton, Assistant Director (Housing & Corporate Services)

Summary

This report details how the Housing Revenue Account revenue and capital budgets have been drafted and explains the business objectives for the Housing Revenue Account in 2011/2012.

It gives details of the Revenue and Capital Budgets for 2011/2012 and seeks approval for new rent and service charges levels commencing April 2011.

It also provides a copy of the proposed 5-year planned maintenance delivery plan attached as Appendix E.

1. Budget and Policy Framework

- 1.1 In accordance with the constitution, Full Council is required to carry out an annual review of rents and notify tenants not less than 28 days prior to the proposed date of change.
- 1.2 The Committee is asked to consider this matter as urgent as the Housing Revenue Account budget 2011/2012 has to be considered at Cabinet on 15 February 2011 and then at the Full Council budget meeting on 24 February 2011.

2. Background

- 2.1 The comments and recommendations of this Committee will be collated for onward despatch to the Cabinet on 15 February 2011.

2.2 The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account does not fall into a deficit position.

2.3 The preparation of the 2011/2012 Housing Revenue Account budget has been driven by a number of specific issues that impact upon the service. These drivers are listed below and explained in more detail in the following paragraphs;

- Rent Restructuring,
- Performance Management,
- Business Planning

3. Rent

3.1 Members will be aware of the Governments' initiative to converge social housing rents between local authorities and registered social landlords by March 2012. The underlying principle is that actual rents are required to converge with formula rents (based on beacon values). As formula rents will increase by 5.1% (RPI Sept 2010 + 0.5%) it is inevitable that rents will rise in excess of this percentage. However, the increase on rents is limited to 5.1% plus £2 per week.

3.2 The key decision for members is how much to increase rents by where those rents are below target rent (in the 19 cases where actual rents are currently above target rent it is proposed that those rents be reduced accordingly, average reduction £1-£1.25pw). Members can choose to spread the increase to target rent over a further 5 years for all tenants (Option 1), which gives an average increase of 5.1% (including those which reduce). Alternatively (Option 2), members could apply the maximum increase allowed, which would mean an average increase of 6%. Option 2 would raise an estimated £95,000 more in rent income and move an additional 1,000 properties to target rent.

3.3 Option 3 is a 'hybrid' option that would adopt 'smoothing' as in option 1 but only in those cases where the variance to target rent is in excess of 50p per week. This would give a very marginal increase in the average rent set against option 1 at 5.16 % but would move an additional 713 properties to target rent.

Option	Proposal	Income generated -v - Option 1	Average increase	Maximum increase	Properties at target rent (out of 3,047)	Average Rent
1	Smoothed increase towards target rent		£3.59pw (5.1%)	£6.74pw (8.5%)	834	£74.39
2	Maximum increase	+£95,000	£4.21pw (6%)	£6.74pw (9.5%)	2,138	£75.01

3	Hybrid – smoothed increase only where variance to target rent > 50p per week. Others move to target rent.	+£6,500	£3.63pw (5.2%)	£6.74pw (8.5%)	1,547	£74.43
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- 3.4 It is recommended that Option 3 be chosen as the preferred option. This will move many properties to target rent whilst restricting rent increases to an average of £3.63 per week or 5.16%. Appendix B gives details as to the projected average rents by stock type for 2011/2012, should this option be chosen, and compare these with 2009/2010, 2010/2011 and the formula rent for 2011/2012.
- 3.5 Appendix D attached details the impact of the three options in terms of both monetary and percentage increases.
- 3.6 Rents under this arrangement are exclusive of service charges. The rent restructuring initiative requires service charges to be disaggregated from the rent calculation, charged separately and is based on actual expenditure.
- 3.7 The 2010/2011 rent charge for garages is £5.69 per week for Council tenants and £7.57 per week plus VAT (£9.08) for other residents. It is proposed that garage rents will increase by 4.6% from April 2011 and the new charge will be £5.94 per week for Council tenants and £7.92 per week plus VAT (£9.50) for other residents. It is estimated that this will generate an additional income of approximately £8,900 over the projected income for 2010/2011. Due to the number of voids and the current economic conditions, there is an option that garage rents could either remain at current levels for 2010/2011 or be increased by a smaller percentage than given above. The additional rental income gained (and therefore foregone if the rents are not increased) will be equivalent to £1,930 per annum for each percentage point taken.

4. Service Charges

- 4.1 Service charges for 2011/2012 will be calculated using estimated costs based upon actual charges for previous years. Guidance states that, whilst increases should be confined to inflation plus 0.5%, the cost of providing services to tenants should be fair and fully recovered.
- 4.2 A review of service charge expenditure for 2008/2009 highlighted a number of areas where the cost of providing the service was not being fully recovered. A further analysis of costs relating to 2009/2010 shows that the total cost of providing the services was £789,220, whereas the total charges levied to tenants and leaseholders was just £600,410, a shortfall of £188,810. Particular services such as estate services (caretaking), communal electricity, communal heating and grounds maintenance demonstrate a large gap between the cost of providing the service and the income recovered through charges to tenants.

- 4.3 It is estimated that significant increases over and above inflation for Estate Services (16.75%), Communal Electricity (8.4%), Window Cleaning (7.3%) and Grounds Maintenance (6%) would be needed for the years 2012/2013 to 2014/2015 if the true costs of providing the services are to be fully recovered by the end of that period.
- 4.4 Members agreed as part of the 2010/2011 budget, to introduce a programme of above inflation increases, where required, between 2011/2012 and 2014/2015, to ensure that the true costs of providing the services are recovered by the end of this period.
- 4.5 Some charges are funded through the Supporting People Grant, and therefore any proposed increases for these particular charges can only be made if there is a similar increase through the Supporting People Grant. Funding for Supporting People is no longer discrete but now forms part of the overall formula grant and is subject to the requirement to find savings of £23.4m in the overall General Fund budget so cannot be assumed to be as current.

Any cuts in the Supporting People grant to sheltered housing will mean that efficiencies will need to be found to compensate for this, otherwise the non-recovery of service charges would be higher.

- 4.6 For costs that are under the direct control of the Housing Revenue Account, a further option will be to reduce current levels of service to meet the levels of income currently received, subject to appropriate tenant and leaseholder consultation. Savings have already been found in year by a restructure of staff, and further efficiencies will be targeted to ensure that costs are reduced where possible.
- 4.7 To assist with this reduction of costs, a review of the estate services team is currently taking place, and therefore officers suggest that the service charge should only be increased by inflation for 2011/2012 as this review could help to reduce the level of service charges in this area. Appendix C details the projected percentage increases required against each type of service charge in 2011/2012, the number of tenancies that are affected and a comparison of the average weekly service charge levies from 2010/2011 to the proposed 2011/2012 charges.
- 4.8 The average service charge increase for 2011/2012 across all charges is 7.56% or £0.06 per week.

5 Performance Management

- 5.1 The financial management of the Housing Revenue Account is directly linked to key performance in a number of operational areas (void management, rent collection and arrears recovery).

5.2 Void Management

- 5.2.1 There is a direct correlation between the time a property remains void and the rent foregone.

- 5.2.2 For 2010/2011 a target for void property rent and service charge loss was set at 1.32% of the rent debit, equating to £158,265. Year to date actual performance is currently at 0.97%, a financial rent loss of £114,430 if performance remains at current levels.
- 5.2.3 For 2011/2012 the provision for void rent and service charge loss has been set at 0.81%, or in financial terms £99,650.

5.3 Rent Collection/Bad Debt Provision

- 5.3.1 The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the Housing Revenue Account and has a direct impact on the amount of bad debt provision that has to be set aside.
- 5.3.2 It has been calculated that the collection level of rent and service charges for 2010/2011 will be 99.78% against an original target of 99.62%, which will result in current tenant rent arrears at 3 April 2011 of around £350,000. However, it is projected that total arrears, both current and former tenants, will be in the region of £790,000, an increase of £17,000 compared with the previous year.
- 5.3.3 In order to meet top quartile performance, the level of current rent arrears should be around 2.09% of the rent and service charge debit (Source: Housemark September 2010 PI for Housing Providers in London/South East England), which is calculated as around £257,000 whilst median quartile at 3.23% would equate to £396,000 as at 1 April 2012. Therefore by setting a target of £316,000, which is above median but below upper quartile, we will be delivering an improved service and moving towards a comparable upper quartile performing service. In order that overall rent arrears targets (both current and former) are met, and assuming the transfer of current debt to former debt, through terminated tenancies with arrears balances of £60,000, it will be necessary that the collection rate target is set at 100.07% (rents plus arrears).
- 5.3.4 As at 31 March 2012, the projected requirement for bad debt provision will be £528,965 and will require an additional contribution from revenue of £51,640, which has been included within the 2011/2012 budgets.

6 Business Planning, the Cessation of Housing Subsidy and the Self-Financing Option

- 6.1 The Government stated its intention to end the current housing subsidy system with the introduction of self-financing as part of the comprehensive spending review in October 2010. Further details were announced in the Localism Bill during November 2011, where it was stated that housing subsidy would cease at the end of 2011/2012, and self-financing will commence from 2012/2013.
- 6.2 In order to achieve this, there will be a requirement to make a 'one-off' payment to central government equivalent to 30 years worth of housing subsidy payments. The 'offer' to Councils will be made towards the end of January 2011 and will be based upon uplifts in allowances (management,

maintenance and major repairs allowance) against projected rental income over that period. These figures will then be discounted to bring them to current prices. The final figure will then need to be 'borrowed' and this figure will be added to the current level of HRA debt.

- 6.3 Officers will model the financial effects of the offer, together with the future planned maintenance requirements for the stock as a result of the full stock condition survey, and present this to Members and tenants forums in order that this can inform the future direction that the Housing Revenue Account for Medway is taken.
- 6.4 The Council is required to produce a HRA business plan covering a period of thirty years based on projections of income and expenditure, performance and assumptions such as the loss of stock from right to buy. It incorporates a financial projection over the thirty-year period and provides the framework for strategic decision-making.
- 6.5 It is intended that a revised business plan will be produced once the self-financing offer has been received. The recent stock condition survey and new asset management plan will be used to draw up a detailed 30-year capital programme. The 30-year business plan will show detailed costings behind the management and maintenance of the stock to give a sustainable position over that period of time. The plan must follow a consultation process, and will be then presented to Members and tenants for approval.
- 6.6 The business plan must be reviewed at least annually to ensure that the business is financially sustainable.
- 6.7 Early calculations have shown that, whilst under the current housing subsidy system, there is not enough finances in the HRA to maintain the stock in the medium to long-term, it is anticipated that under self-financing, this position is likely to improve such that the financial position will be stabilised for the life of the business plan.

7 Housing Revenue Account Expenditure

- 7.1 Generally, all expenditure, including staff related, will remain at 2010/2011 levels for 2011/2012 to reflect the current economic climate in line with the Medium Term Financial Plan.
- 7.2 The cost of housing benefits under rent rebate limitation is the responsibility of the Housing Revenue Account. For 2011/2012, it is projected that the cost of this will be just under £150,000. For future years it is anticipated that this figure will reduce due to the convergence of actual rents with formula rents.

7.3 Capital Financing Costs

- 7.3.1 These are charges relating to the debt incurred by the Housing Revenue Account for capital schemes.

7.3.2 The estimate for 2011/2012 can be split into separate components, depreciation (equivalent to the Major Repairs Allowance), capital financing and debt management charge.

7.4 Housing Subsidy

7.4.1 The 2011/2012 final subsidy settlement has been worked through and it is calculated that the Council will have to pay £1.771m to the Government, an increase of 31% compared with the projected payment of £1.357m to be paid in 2010/2011. This is principally as a consequence of a 6.4% increase in the rent income component of the calculation, whilst the expenditure components for management, maintenance and major repairs have increased by only 4.1%, 2.2% and 2.6% respectively.

8 Housing Repairs

8.1 Housing repair expenditure covers both planned and responsive maintenance some of which is capital funded. The funding is split between HRA balances and the major repairs allowance (MRA). The MRA can be spent on either capital or revenue works provided it is allocated to catch up repairs. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure to achieve a spend ratio of 30:70.

8.2 Whilst the detailed plan for capital works within 2011/2012 is currently being produced, in line with the asset management strategy, it has been projected that the total cost of HRA capital works (including disabled adaptations) will be £5.565m. This projected expenditure will be funded by way of:

1. £2.875m Major Repairs Allowance/Major Repairs Reserve
2. £2.69m Contribution from HRA Working Balances

8.3 The stock condition survey completed in 2009/2010, together with the asset management plan will allow for better planning of capital costs for works and repairs, and for decisions to be made on planned maintenance. Further information relating to the asset management strategy can be found elsewhere within this report.

8.4 It is not expected that the required programme for 2011/2012 will exceed £5.565m. If however any additional expenditure is required due to unforeseen exceptional circumstances, it could be funded from the remaining working balance.

8.5 Based on the draft proposed combined capital (£5,565m) and revenue (£2.308m) work programmes the financial split in 2011/2012 is likely to be:

- Responsive Maintenance £2.375m
- Planned Maintenance £5.498m

This split will equate to a 30:70 spend ratio for 2011/2012.

- 8.6 The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties, lift maintenance, estate improvements and repairs programme, and central heating maintenance.
- 8.7 The proposed capital budget of £5.565m is split into planned maintenance and disabled adaptations with budgets of £5.168m and £0.397m respectively.

9 Housing Revenue Account Working Balance

- 9.1 There is a requirement to maintain a working balance to safeguard against unplanned and unavoidable increases in expenditure or losses of income and it is generally accepted that the level should be set at approximately £150 per property. At 1 April 2010 the working balance stood at £5.127m whereas, using the recommended figure, the minimum level of working balance should be in the region of £460,000. The excess is available for investment in the stock condition.
- 9.2 The latest revenue monitoring report shows an estimated 2010/2011 surplus of £1.020m less projected costs of the reorganisation, which took place in May 2010 of £0.214m, and would result in a working balance of £5.933m as at 31 March 2011.
- 9.3 The draft 2011/2012 Housing Revenue Account budget, as presented at Appendix A, produces a projected surplus of £0.993m, and after allowing for a contribution to fund the capital programme of £2.69m will produce an estimated working balance of £4.235m at 31 March 2012.
- 9.4 Whilst the projected working balance is substantially greater than the minimum required, (projected to be £1,947 per property as at 31 March 2011) the 30-year Housing Revenue Account business plan is likely to require significant revenue support towards the capital programme, specifically within the next few years to enable catch-up repairs and maintain all properties at the Decent Home Standard.

10 Consultation

- 10.1 The Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that the increase becomes operative. For 2011/2012 the latest date for posting the notices is 2 March 2011.
- 10.2 The council has developed a Resident Engagement Strategy detailing how we will consult and engage with tenants in partnership with tenant's forums. In order to support this commitment, we will consult with residents through the Tenant Scrutiny Panel at their meeting scheduled for 21 January and a fuller consultation event is planned for 9 February 2011 and their views will be available to Cabinet when they consider these proposals, together with the rest of the Council budget at the meeting to be held on 15 February 2011. Views from the Tenant Scrutiny Panel meeting on 21 January will be verbally given to members of this committee.

11 The Housing Asset Management Strategy

- 11.1 The housing stock represents one of the councils highest value assets and its repair and maintenance is a significant liability, therefore planning for its sustainable future is important. Effective and efficient management of the housing assets plays an important part in delivering many of the council's corporate priorities and strategic objectives and the Asset Management Strategy (AMS) provides the long term planning, provision and sustainability of assets. The AMS defines;
- Medway's position with regard to asset management and how this aligns to core business objectives;
 - Needs, future trends and changes influencing these;
 - The stock, its condition, use and required re-investment over the next 30 years;
 - The risks and issues relating to the assets and how these may be reduced;
 - The methodologies and implementation processes for the Strategy
 - Details of the anticipated 5-year capital planned programme of works
- 11.1 To ensure that we manage our housing stock in the most effective way following our revised AMS, officers propose to undertake the following actions :-
- An Asset Management Group (AMG) is to be set up to regularly review the strategy and this will be chaired by the Assistant Director for Housing and Corporate Services. Specific objectives of the management group are described in the AMS.
 - Regular Stock Condition Surveys (SCS) will be undertaken to determine the ongoing condition of the estate the information and will be used to continually review planned and responsive maintenance requirements.
 - A comprehensive Asset Management Database will be maintained to store information,
 - A Viability Model to identify high cost and/or low demand properties to aid decisions on retention, disposal and investment will be used.
- 11.2 The AMS identifies the current position and sets out key actions that will maintain the condition and value of the housing stock and improve service and operational delivery.
- 11.3 The AMS will be regularly reviewed to take into account links with other council strategic objectives including the wider corporate estate, works completed planned and responsive, changes in legislation, government and local initiatives procurement options, availability of funding and other changes that affect the management of Housing Assets. Actions within the strategy will be reviewed and updated to accommodate changes as they occur.

12 Finance / 5 Year Planned Maintenance Programme

- 12.1 One of the key outputs from the AMS is the 5 Year Planned Maintenance Delivery Plan which identifies what works are likely to be required, where those works are likely to be and an estimate of costs over the next five years.
- 12.2 The programme is based upon information gained from Stock Condition Surveys (SCS) completed in 2007 and 2009/10. Of the 3056 council properties, 87% have been surveyed. The SCS information is used to generate the Decent Homes and Planned Maintenance elements of the programme. The SCS identifies the remaining life of an asset or element of a building e.g. roof or kitchen based on industry standard life expectancies, therefore if the construction or installation date is known or can be estimated the year when that particular element is due for replacement can be also be estimated. However, many elements last longer than expected and work will only be carried out when actually needed.

In addition to SCS information there are 'Health and Safety' works identified through further surveys such as Accessibility Audits and Fire risk assessments and 'Improvement' and 'Estate' works e.g. footways, highway, fences, play areas, amenity greens, nominal allowances are made for maintaining these asset areas of work.

- 12.3 The 5-year programme is attached in appendix F and the identified works are clearly in excess of the available budgets based on current available financing.

Works have been prioritised as follows:-

1. All works associated with Health and Safety
2. Maintaining the Decent Homes Standard across the estate.

The cost of these elements is subtracted from the available budget and this leaves a residual budget, which can be used to address backlog and future planned maintenance works. The SCS identified works to items that are already beyond their life expectancy and this is the 'backlog' figure, Year One therefore consists of the 2011/2012 figures plus the backlog.

As the identified works exceed the available budget, the planned maintenance element will also be prioritised by the Assistant Director Housing and Corporate Services and approved or deferred accordingly.

Under current funding arrangements there will continue to be a shortfall and the process for identifying and prioritising works will continue year on year until such time as additional funding is available (possibly through self financing) to catch up with the backlog works.

To assist in the prioritisation process a trend analysis of responsive works will be undertaken to identify where repairs spend is the highest so that planned maintenance can be completed to reduce responsive spend.

- 12.4 By the nature of the stock condition surveys being completed at a fixed point in time and applying life expectancies which are an industry average, the SCS can never be taken as 100% accurate and officers cannot just follow the findings of those surveys. Before completing any works, more comprehensive validation surveys will be carried out to ensure works are actually required.

To provide best value for money and reduce inconvenience for residents to a minimum, where budgets allow officers will also look to combine works, taking a five-year forward view. As an example, where the SCS indicates that for a particular property soffits fascias and gutters are due for replacement in year one, chimneys require re-pointing in year three and roof tiles are due for renewal in year five it would be better to carry out all these works together rather than over a period of years. The validation survey will confirm whether the life of individual elements can be extended so that all works can be completed together. This is a dynamic process in relation to commissioning and managing the works programme.

- 12.5 The stock condition surveys have highlighted back log of maintenance issues that if not addressed will lead to deterioration of the stock and ultimately place a greater burden on the responsive repairs budget increasing each year as the stock continues to deteriorate. The 5-year plan attached indicates the sums required to address Health and Safety issues, maintain decency and deal with some of the back log of maintenance in a programmed way as indicated by our stock condition surveys and in accordance with good practice. There are insufficient funds to deal with all back-log maintenance issues therefore works will be prioritised following more detailed validation surveys to minimise the impact on responsive repairs.
- 12.6 Allowances have been made within the 30 Year tables for Estate Improvements but again there is limited scope for these within existing funding, and expenditure in this area could only be achieved at the risk of not being able to deal with backlog maintenance issues. Estate Improvements will be reconsidered if further funding is available through self-financing or additional efficiencies in the service.
- 12.7 An allowance has been made for capital contributions towards voids. A review of void costs has been completed which showed that there were elements of work required which would normally be part of the planned maintenance programme and should not be included in the standard void specification. Carrying out major works when a property is empty is more cost effective and does not disrupt residents, therefore if major works are required they can be financed through planned works rather than short term repairs being carried out.

13 Risk Management

Risk	Description	Action to avoid or mitigate risk
Housing Revenue Account Balance	<p>There is a requirement to ensure that the balance on the Housing Revenue Account does not fall into deficit and a business plan is required to model this need over a thirty-year period. There are two major factors with the potential to impact on this requirement: -</p> <p>a) The level of expenditure required for housing repairs</p> <p>b) Government proposals for local authorities to leave the subsidy system in favour of a self financing Housing Revenue Account</p>	<p>A stock condition survey has been undertaken that will provide a sound basis on which to model future repairs investment.</p> <p>Once Government has issued full and final details of self financing the impact and options for Medway will be analysed and reported back to members</p>

14 Financial and legal implications

- 14.1 The financial implications are contained within the body of this report.
- 14.2 Under Section 76 of the Local Government & Housing Act 1989, the council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions; the Housing Revenue Account for that year does not show a debit balance. The council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the council shall make such provisions as are reasonably practicable towards securing that the proposals, as revised, shall satisfy the requirement.
- 14.3 Under Section 24 of the Housing Act 1985, the council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. In exercising this function (determining and fixing rent), the council should have regard to the rents charged in the private sector.
- 14.4 A decision to increase rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.

15 Recommendations

The Overview and Scrutiny Committee is asked to recommend to Cabinet:

- 1) The proposed revenue and capital budgets for 2011/2012, inclusive of an average rent increase in line with option 3 (as detailed in Para 3.4 above) of £3.63 per week (based upon 50 collection weeks and equating to an increase of 5.16%);
- 2) That service charges for 2011/2012 reflect the costs incurred in providing that service, where possible, and that where costs are not fully recovered, the uplift is such that costs can be fully recovered by 2014/2015 using above inflation increases to do so as per Appendix C to this report. The average increase will be 7.56%.
- 3) To agree to the increases in service charges from 2011/2012 to 2014/2015 inclusive at the levels shown in Table 1 of this report in order that the true costs of providing services are recovered

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Background papers

2010/2011 Revenue Budget report to Cabinet – 30 November 2010
Housing Asset Management Strategy – December 2010

HOUSING REVENUE ACCOUNT BUDGET SUMMARY

	Budget 2010/11			Forecast 2010/11			Proposed Budget 2011/12		
	Exp	Income	Net	Exp	Income	Net	Exp	Income	Net
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Housing Revenue Account									
H.R.A. Working Balance Bif			(5,127)			(5,127)			(5,933)
Housing Management	1,013	0	1,013	1,083	0	1,083	1,112	0	1,112
Service Improvement	361	0	361	310		310	350	0	350
Community Development	74	0	74	79		79	73	0	73
Tenancy Services	864	0	864	845	0	845	731	0	731
Housing Maintenance	2,715	0	2,715	2,695	0	2,695	2,712	0	2,712
Sheltered Housing	707	0	707	684	0	684	707	0	707
Estate Services	370	(15)	355	365	(15)	350	505	(4)	500
Housing Finance	157	(22)	134	167	(22)	145	175	(22)	153
Rent Rebate Subsidy Limitation	267	0	267	202	0	202	154	0	154
Capital Financing Costs	3,137	0	3,137	3,172	0	3,172	3,270	(12)	3,258
Rent Income	0	(12,028)	(12,028)	0	(11,801)	(11,801)	0	(12,376)	(12,376)
Housing Subsidy	1,357	0	1,357	1,357	0	1,357	1,771	0	1,771
Other Income	0	(199)	(199)	0	(140)	(140)	0	(137)	(137)
Total Housing Revenue Account	11,022	(12,265)	(1,243)	10,959	(11,979)	(1,020)	11,559	(12,552)	(993)
Further Revenue Contribution to Capital Expenditure			1,761			0			2,690
Costs of Reorganisation						214			
H.R.A. Working Balance Bif			(4,609)			(5,933)			(4,235)

AVERAGE RENT INCREASES BY PROPERTY TYPE (50 WEEKS)

Property Type	2009/2010 Actual Rent	2010/2011 Actual Rent	2010/2011 Formula Rent	Proposed Rent 2011/2012	Formula Rent 2011/2012	Average Increase 2010/2011 to 2011/2012	Percentage Increase 2010/2011 to 2011/2012
Bedsit Bungalow	£55.80	£55.65	£57.42	£58.93	£60.34	£3.28	5.90%
Bedsit Flat	£52.75	£52.68	£54.13	£55.67	£56.89	£2.99	5.68%
1 Bedroom Bungalow	£65.93	£64.11	£63.71	£66.73	£66.96	£2.62	4.09%
1 Bedroom Flat	£60.70	£60.81	£62.65	£64.29	£65.83	£3.49	5.73%
2 Bedroom Bungalow	£74.02	£73.56	£72.54	£76.24	£76.24	£2.68	3.64%
2 Bedroom House	£77.10	£76.32	£76.11	£79.65	£80.00	£3.34	4.37%
2 Bedroom Flat	£67.56	£67.87	£70.06	£71.83	£73.64	£3.96	5.84%
3 Bedroom Bungalow	£86.47	£84.40	£81.41	£85.56	£85.56	£1.16	1.38%
3 Bedroom House	£84.99	£84.21	£85.24	£88.48	£89.59	£4.27	5.07%
3 Bedroom Flat	£73.90	£74.01	£79.08	£78.90	£83.12	£4.89	6.61%
4 Bedroom House	£92.76	£91.75	£92.01	£96.15	£96.69	£4.40	4.80%
5 Bedroom House	£90.07	£91.33	£105.09	£98.07	£110.45	£6.74	7.38%
Sheltered Bedsit for the Disabled	£52.33	£52.21	£52.49	£54.96	£55.17	£2.75	5.28%
Sheltered Bedsit	£52.09	£52.19	£52.49	£54.98	£55.17	£2.79	5.35%
1 Bedroom Sheltered	£60.83	£59.98	£59.23	£62.08	£62.24	£2.10	3.50%
2 Bedroom Sheltered	£66.18	£65.09	£68.76	£69.22	£72.28	£4.13	6.34%
3 Bedroom Sheltered	£72.31	£71.95	£76.00	£76.47	£79.88	£4.52	6.29%
1 Bedroom Sheltered Bungalow	£66.78	£65.08	£61.54	£64.25	£64.67	£(0.84)	(1.28%)
Overall Average	£ 66.78	£ 65.08	£61.54	£64.25	£ 64.67	£3.63	5.16%

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY

	Inflationary Increase %	Above Inflation Increase %	Proposed Percentage Increase for 2011/2012 %	Number of Tenancies Receiving Service Charge 2010/2011	Percentage of Overall Tenancies Receiving Service Charge 2010/2011 %	Average Weekly Service Charge 2010/2011 £	Proposed Average Weekly Service Charge 2011/2012 £	Projected Weekly Variation 2011/2012 to 2010/2011 £	Projected (Surplus)/Deficit 2011/2012 £'000
Eligible for Housing Benefit									
Adult Services Facilities	4.60%	(4.60%)	0.00%	4	0.13%	14.98	14.98	0.00	N/a
Estate Services (Caretaking)	4.60%	0.00%	4.60%	1,183	38.83%	3.60	3.76	0.16	138
Communal Electricity	4.60%	8.47%	13.07%	1,470	48.24%	0.88	1.00	0.12	29
Grounds Maintenance	4.60%	6.25%	10.85%	1,264	41.48%	0.51	0.56	0.05	7
Sheltered Helpline	4.60%	7.42%	12.02%	271	8.89%	1.83	2.05	0.22	0
Linked Garage	4.60%	0.00%	4.60%	31	1.02%	5.68	5.94	0.26	N/a
Sheltered Management	4.60%	2.39%	6.99%	276	9.06%	12.58	13.46	0.88	13
Window Cleaning	4.60%	6.97%	11.57%	751	24.65%	0.28	0.31	0.03	3
Not Eligible for Housing Benefit									
Cooker	4.60%	(4.60%)	0.00%	220	7.22%	0.64	0.64	0.00	N/a
Fridge	4.60%	(4.60%)	0.00%	106	3.48%	0.64	0.64	0.00	N/a
Communal Heating	4.60%	(6.02%)	(1.42%)	262	8.60%	7.67	7.56	(0.11)	0
Water Rates	4.60%	0.90%	5.50%	250	8.20%	3.12	3.29	0.17	2
Supporting People Eligible Charges									
Community Alarm	4.60%	(11.60%)	(7.00%)	145	4.76%	9.65	8.97	(0.68)	9
SP Helpline	4.60%	(11.60%)	(7.00%)	83	2.72%	2.65	2.46	(0.19)	4
Sheltered Support	4.60%	(11.60%)	(7.00%)	280	9.19%	12.06	11.22	(0.84)	75

N.B. - Cells with an entry of N/a denote services where there is no specific attributable expenditure against which a surplus/deficit can be assessed. The levels for these charges have been set using the best information relating to anticipated costs.

HOUSING REVENUE ACCOUNT RENT INCREASE OPTIONS 2011-2012

Financial (50 Weeks)		Percentage		
		Option 1	Option 2	Option 3
		Smoothing	No Smoothing	Partial Smoothing
Increase Per Week (£)	Increase Per Week (%)	Smoothing	No Smoothing	Partial Smoothing
(£6.00)-(£5.01)	(9%)-(8%)	0	0	0
(£5.00)-(£4.01)	(7.99%)-(7%)	1	1	1
(£4.00)-(£3.01)	(6.99%)-(6%)	3	3	3
(£3.00)-(£2.01)	(5.99%)-(5%)	0	0	0
(£2.00)-(£1.76)	(4.99%)-(4%)	1	1	1
(£1.75)-(£1.51)	(3.99%)-(3%)	1	1	1
(£1.50)-(£1.26)	(2.99%)-(2%)	0	0	0
(£1.25)-(£1.01)	(1.99%)-(1%)	7	7	7
(£1.00)-(£0.76)	(0.99%)-(0.01%)	6	6	6
(£0.75)-(£0.51)	0%	0	0	0
(£0.50)-(£0.26)	0.01%-0.99%	8	8	8
(£0.25)-(£0.11)	1%-1.99%	75	75	75
(£0.10)-(£0.01)	2%-2.99%	97	97	97
£0.00	3%-3.99%	286	286	286
£0.01 - £0.10	4%-4.99%	314	314	314
£0.11 - £0.25	5%-5.99%	1635	781	1621
£0.26 - £0.50	6%-6.99%	529	296	543
£0.51 - £0.75	7%-7.99%	78	540	78
£0.76 - £1.00	8%-8.99%	6	613	6
£1.01 - £1.25	9%-9.99%	0	18	0
£1.26 - £1.50				
£1.51- £1.75				
£1.76 - £2.00				
£2.01 - £3.00				
£3.01 - £4.00				
£4.01 - £5.00				
£5.01 - £6.00				
£6.01 - £7.00				
£7.01 - £8.00				
Total	Total	3047	3047	3047
Minimum (£)	Minimum (%)	(7.28%)	(7.28%)	(7.28%)
Average (£)	Average (%)	5.09%	6.00%	5.16%
Maximum (£)	Maximum (%)	8.49%	9.48%	8.49%
Average Weekly Rent (£)	Actual -v- Formula Rent			
	Above Formula Rent	0	0	0
	At Formula Rent	834	2138	1547
	Below Formula Rent	2213	909	1500
	Total	3047	3047	3047

MEDWAY HOUSING - 5 YEAR PLANNED MAINTENANCE DELIVERY PLAN



Section	Year 1 (not carried)	Year 2	Year 3	Year 4	Year 5	
IB - All Decent Homes has been brought forward by 1 year Available Budget £5,198,000 £5,300,000 £5,300,000 £5,300,000 £5,300,000 £18,365,000						
PRIORITY WORKS						
Health and Safety						
HSS Repairs	£0	£90,000	£90,000	£90,000	£90,000	£400,000
HSS Electrical Test	£120,000	£0	£0	£0	£0	£194,500
HSS Legionella test/amend	£50,000	£0	£0	£0	£0	£50,000
HSS LSC Mortars/Woodwork/Cliffhams	£55,000	£55,000	£55,000	£55,000	£55,000	£275,000
HSS DDA	£55,000	£55,000	£55,000	£55,000	£55,000	£275,000
HSS Fire alarms/smoke detectors	£52,840	£0	£0	£0	£0	£105,680
HSS Fire alarm test & fire drills/training/co-opts	£50,000	£0	£0	£0	£0	£50,000
Waste						
Waste Capital contributions towards voids	£100,000	£90,000	£90,000	£90,000	£90,000	£540,000
Decent Homes						
DH Warmth	£12,650	£23,353	£115,335	£85,745	£51,570	£304,553
DH Damp	£22,440	£52,600	£38,090	£25,440	£27,000	£165,570
DH Protection	£0	£5,152	£21,142	£270,106	£90,700	£1,185,178
DH Windows	£26,733	£26,730	£0	£45,760	£30,255	£109,478
DH Windows	£10,500	£4,820	£0	£10,500	£10,500	£23,320
DH Electrical supply	£742,000	£45,000	£51,000	£84,000	£180,000	£502,000
DH Heating Boilers	£750,000	£119,700	£115,900	£115,900	£161,500	£587,000
Sub total	£969,272	£295,222	£298,235	£352,643	£432,159	£1,443,559
Contingency @ 10%	£96,927	£29,522	£29,823	£35,264	£43,216	£144,356
Contingency @ 5%	£48,464	£14,761	£14,912	£17,632	£21,608	£72,178
Total Priority Works	£1,112,212	£607,934	£607,934	£607,934	£607,934	£4,006,502
Residual Budget/available budget/unused priority work(s)						
	£3,885,488	£2,620,066	£2,620,066	£2,620,066	£2,620,066	£13,981,488
PLANNED MAINTENANCE						
PM Pooton drive - (Bucks) standard complete	£7,550	£14,010	£17,736	£17,446	£20,699	£120,958
PM Chainey church and tiles	£1,100	£2,500	£23,820	£25,410	£38,940	£151,310
PM Poles and second day walk	£9,000	£191,938	£261,284	£231,256	£272,780	£1,294,916
PM Windows	£2,046	£7,058	£5,304	£2,948	£3,465	£23,155
PM Private block	£70,200	£2,310	£51,150	£18,480	£31,320	£198,330
PM Bathrooms and WC	£3,830	£3,830	£4,400	£6,600	£10,420	£31,350
PM Kitchens	£500,250	£245,100	£655,450	£683,200	£249,820	£3,241,550
PM Doors	£733,300	£1,630,200	£1,045,200	£744,900	£284,700	£5,376,200
PM Paths and Hard Landings	£73,584	£28,644	£187,905	£81,785	£59,015	£1,253,935
PM External walls and gates	£95,450	£173,995	£54,050	£29,765	£47,035	£367,080
PM Gates	£9,123	£82,040	£104,037	£26,107	£41,377	£305,467
PM External walls and gates	£4,200	£57,085	£54,340	£62,205	£41,225	£256,240
PM Electric	£50,400	£164,400	£256,800	£62,800	£90,400	£565,120
PM Boilers and Heating Distributors	£758,700	£351,000	£482,600	£289,000	£440,000	£1,873,100
IMP Improve lift	£0	£1,000,596	£1,080,596	£1,080,596	£1,080,596	£5,402,980
EST Extra Works	£0	£56,186	£82,192	£110,831	£227,268	£570,719
MR Contingent Major Repairs	£0	£83,398	£83,398	£83,398	£83,398	£416,990
EW Exceptional Extra Works	£0	£90,587	£420,587	£420,587	£420,587	£1,772,935
Sub Total						
	£5,997,158	£4,001,830	£3,660,219	£3,153,934	£3,645,283	£21,386,424
Contingency @ 10%	£599,716	£400,183	£366,022	£315,393	£364,528	£2,138,642
Contingency @ 5%	£299,858	£200,092	£183,011	£157,697	£182,264	£1,069,321
Total Planned Maintenance	£7,116,533	£4,602,105	£4,219,252	£3,627,628	£4,112,145	£25,663,731
Budget shortfall (Planned maintenance minus residual budget)						
	£3,331,045	£2,380,167	£2,099,187	£1,815,332	£1,895,779	£10,085,779

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BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

27 JANUARY 2011

TREASURY MANAGEMENT STRATEGY 2011/2012

Report from: Mick Hayward Chief Finance Officer

Author: Andy Larkin Finance Support Manager

Summary

This report seeks the scrutiny of the Council's Treasury Management Strategy for the 2011/2012 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision policy.

1. Budget and Policy Framework

- 1.1 Business Support Overview and Scrutiny is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement.
- 1.2 Following scrutiny by Business Support Overview and Scrutiny, Cabinet will consider the strategy taking into account this committee's comments;
- 1.3 Approving Policy and the setting of prudential indicators is a matter for Council.
- 1.4 The Chairman has agreed to accept this item as an urgent item for consideration at this meeting to enable this report to be scrutinised by this Committee prior to going to Cabinet on 15 February 2011.

2. Background

- 2.1 Treasury management is defined as:

"The management of the local authority's investments and 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."

2.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 25 February 2010.

2.3 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices, this has been delegated to Cabinet and for the execution and administration of treasury management decisions has been delegated to the Chief Finance Officer.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, this has been delegated to Business Support Overview and Scrutiny.

2.4 The suggested strategy for 2011/2012 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

2.5 In exercising the delegations to fulfil the responsibilities set out in the Treasury Management Strategy the Council will establish a set of standards to govern the manner in which these responsibilities are exercised. These standards are referred to as the Treasury Management Practices and are

attached at Appendix 7 and are the detail by which the Chief Finance Officer will ensure the proper stewardship of the Treasury function is maintained.

3. Balanced Budget Requirement

3.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future

4. Treasury Limits for 2011/12 to 2013/14

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

4.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3 of this report.

4.4 For 2012/2013 the current Housing Subsidy regime will cease in favour of a new 'self-financing' model which will involve the transfer of the current liability under the subsidy calculation into a debt burden. The current consultation suggests that this will be in the order of an additional £11 million of borrowing against the Housing Revenue Account. At present it is unclear as to whether this will feature in the capital financing requirement calculation as debt incurred on 31 March 2012 or the 1 April 2012. The authorised limit is currently including this additional debt as part of the limit for 2012/2013 but clearly this will be affected by both the value and timing of any such debt transfer. Officers believe that the adjustment in 2012/2013 is appropriate and that the value is within the tolerance for the authorised limit. Clearly if circumstances dictate a change in that view it will be reported to Members.

5. Current Portfolio Position

5.1 The Council's treasury portfolio position as at 31 March 2011 is anticipated to be:

Table 1	Principal		Ave. rate
	£m	£m	%
Fixed rate funding	PWLB	71.43	
	Market	<u>101.80</u>	173.23 4.13
Variable rate funding	PWLB	0.00	
	Market	<u>0.13</u>	0.13 0.50
Other long term liabilities		<u>0.00</u>	
Gross debt		173.36	
Inhouse Investments	57.90		1.00
Investec Investments	22.45		1.00
Total investments		80.35	
Net debt		93.01	

6. Borrowing Requirement

6.1 The Council's borrowing requirement is as shown in table 2 and indicates a lack of external borrowing for the foreseeable future because of the relative position of investment returns and rates for new borrowing.

Table 2	2010/2011	2011/2012
	£'000	£'000
	probable	estimate
New supported borrowing	12,088	5,333
New prudential borrowing	3,743	2,500
Replacement borrowing	0	0
Total borrowing requirement	15,831	7,833

Note: all new borrowing is currently using internal funds rather than PWLB or the market

7 Prudential and Treasury Indicators for 2011/2012 – 2013/2014

7.1 Prudential and Treasury Indicators (as set out in tables 5, 6 and 7 in appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

7.2 The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 17 February 2002 and the revised 2009 Code was adopted by the full council on 25 February 2010.

8. Prospects for Interest Rates

8.1 The Council has appointed Sector as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector Bank Rate forecast for financial year ends (March)

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

8.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within Appendix 4 to this report.

9. Borrowing Strategy

9.1 Borrowing rates

9.1.1 The Sector forecast for the PWLB new borrowing rate is as follows: -

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Bank Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%
5Yr PWLB	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%
10Yr PWLB	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
25yr PWLB	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%
50yr PWLB	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%

9.1.2 A more detailed Sector forecast is included in Appendix 2.

9.2 As referred to in paragraph 6.1, due to the very low interest rates being earned on investments and restrictions to mitigate counterparty risk, officers will be repaying existing and deferring taking out new debt. However, in the

event that it was deemed advantageous to borrow then we will evaluate the economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow.

9.3 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.*

10. External v. internal borrowing

TABLE 3: Comparison of gross and net debt positions at year end	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
	actual	probable out-turn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	198,408	173,361	163,325	153,312	143,312
Cash balances	88,779	80,349	74,293	25,108	19,771
Net debt	109,629	93,012	89,032	128,204	123,541

10.1 It is anticipated that the difference between gross debt and net debt (after deducting cash balances), by the end of the current financial year will be £80m.

10.2 The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 9.2) so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

10.3 The next financial year is expected to be one of historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity

for local authorities to fundamentally review their strategy of undertaking new external borrowing.

- 10.4 Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.
- 10.5 However, short term savings by avoiding new long term external borrowing in 2011/2012 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- 10.6 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that large premiums would be incurred by such action and would also do so in the near term; such levels of premiums cannot be justified on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.
- 10.7 Against this background caution will be adopted with the 2011/2012 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

11. Policy on borrowing in advance of need

- 11.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
- 11.2 In determining whether borrowing will be undertaken in advance of need the Council will: -
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - consider the merits and demerits of alternative forms of funding
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

12. Debt Rescheduling

- 12.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.
- 12.2 As short term borrowing rates will be considerably cheaper than longer-term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.
- 12.3 The reasons for any rescheduling to take place will include: -
- the generation of cash savings and / or discounted cash flow savings
 - helping to fulfil the strategy outlined in paragraph 9 above
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 12.4 Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

13. Annual Investment Strategy

13.1 Investment Policy

- 13.1.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

- (a) The security of capital and
- (b) The liquidity of its investments.

13.1.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

13.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

13.1.4 Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories.

13.2 Creditworthiness policy

13.2.1 This Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- Credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

13.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

13.2.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands which are colour coded for ease of recognition:

- Yellow 5 years *
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

** Sector note: this category has been added for AAA rated Government debt or its equivalent; please also see collateralised deposits added into Appendix 5 as a new investment instrument.*

- 13.2.4 This Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys tend to be more aggressive in giving lower ratings than the other two agencies. In practice this means an over reliance on the one agency view and if applied could leave the Council with few banks on its approved lending list. The Sector creditworthiness service does still use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to any one agency's ratings.
- 13.2.5 All credit ratings will be monitored continuously by Officers. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.
- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.
- 13.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.
- 13.2.7 Investec use the following methodology to compile its counterparty list:
- (a) Ratings set by Fitch IBCA
 - (b) Credit Default Swap levels (CDS's)
 - (c) Subjective Overlay
- 13.2.8 The Fund Managers "score" the markets current attitude to our counterparties on the standard lending list.
- 13.2.9 Scores are given for the following three important tests:
1. Will a bank buy back its own certificates of deposits (CDs) from us? If the answer is "Yes" this is seen as a signal that there is satisfactory liquidity and a low score will result. A "No" will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.
 2. Is the bank a frequent or rare issuer of CDs? Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses "may be full of the name" or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.

3. Do CDs issued by the banks trade “well” in the secondary market? The market’s appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

13.3 Counterparty Limits

- 13.3.1 Limits need to be set for amounts invested with any individual counterparty at any given moment. The relevant limits are currently set at £20m per counterparty for the in-house team and 20% of the managed portfolio for the fund manager. With these limits and the current in-house portfolio of an average of some £80 million there have been occasions when the in-house team have been stretched to invest at reasonable returns.
- 13.3.2 The Academy programme currently underway will add to these difficulties in that it is anticipated that in March 2011 the Council will be in receipt of an initial funding grant of £26.6m with a further two instalments in the summer of 2011 totalling approximately £50m for the funding of the building of these three new academies. This will result in the need to invest approximately an additional £70m above our current levels in the summer of 2011 although this will diminish as the cash outflows occur.
- 13.3.3 Officers are investigating various proposals on how this money should be invested, within the policy dictated above. However, to assist in this it is suggested that the in-house counterparty limit is raised to £25m for counterparties with a Sector duration rating of 12 months or above. This would have the effect of increasing officers’ ability to invest a further £35m in the highest rated counterparties.
- 13.3.4 In addition to this, officers are investigating adding further high quality counterparties to our in-house list, extending the use of Money Market Funds and increasing the sum invested via our fund manager. All initiatives will be within the approved Treasury Strategy and will be carefully considered by the Chief Finance Officer.
- 13.3.5 No amendments are requested to the Fund Manager counterparty limits.
- 13.3.6 The in-house team and Fund Manager both have the ability to invest unlimited sums with the Debt Management Agency Deposit Facility as this is effectively an office of Central Government. The down side to this investment is that the rate of return is very low (currently circa 0.2%).

13.4 Country limits

- 13.4.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide a rating). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- 13.4.2 The Country limit will be reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom where no limit is imposed.

13.5 Investment Strategy

13.5.1 In-house funds: The Council's in-house managed funds are derived from core balances and cash flow activity. The major part of these funds would normally be available for medium-term investments (less than 3 years). However the policy of running down balances to reduce credit risk and revenue costs from borrowing, as against minimal investment returns, means that such medium-term investments are very unlikely. Officers will monitor this position and if advantageous, then investments will accordingly be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

13.5.2 Shown below are investments already made that extend into 2011/2012

	<i>Amount £m</i>	<i>Maturity</i>	<i>Rate</i>
<i>NatWest Bank (Flippable Range Accrual)</i>	<i>10</i>	<i>26/09/2011</i>	<i>0.35% over 3mth LIBOR reset every 3 months. Current rate 1.10563%</i>
<i>Lloyds TSB</i>	<i>20</i>	<i>23/11/2011</i>	<i>1.95%</i>

13.5.3 Interest rate outlook: Bank Rate has been unchanged at 0.50% since March 2009. and commentators forecast rates to remain at this level until quarter 3 of 2010 and then to rise steadily from thereon. This will obviously be affected by economic factors as they fall but Bank Rate forecasts for financial year ends (March) are as follows: -

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

13.5.4 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

13.5.5 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.

13.6 End of year investment report

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

13.7 External Fund Manager

13.7.1 £22.3m of the Council's funds are externally managed on a discretionary basis by Investec Asset Management.

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement between the Council and the fund

manager additionally stipulate guidelines and duration and other limits in order to contain and control risk.

For Investec the minimum credit criteria to be used by the cash fund manager(s) are as follows: -

	Fitch
Long Term	AA-
Short Term	F1+
Individual/Financial Strength	C
Support	1

13.8 Policy on the use of external service providers

13.8.1 The Council uses Sector as its external treasury management advisers.

13.8.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

13.8.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

14 **Kent County Council (KCC) Local Government Reorganisation (LGR) Debt**

14.1 The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. KCC rates had been decreasing year-on-year as the County took on cheaper new debt but this has recently marginally reversed as the repayment of debt for the cheaper short-term loans distills costs to the higher rates. Whilst the County rate at a projected 5.21% remains marginally higher than our own average debt rate of 4.27% for 2010/2011, the margin between PWLB debt rates for new borrowing and restructured debt (currently 5.46% vs 4.35% for 25 year borrowing) is such that this saving would be negated by the penalty involved. The outstanding principal at 1 April 2011 will be £47.1m.

Table 4 - Current and Historical Rates of Interest Charged on KCC LGR debt

Year	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Estimate	2011/12 Estimate
Rate	5.77%	5.74%	5.51%	5.08%	5.21%	5.34%

15. Minimum Revenue Provision

- 15.1 The Minimum Revenue Provision is explained and the Policy Statement for 2011/2012 is set out at Appendix 1. The MRP calculation is currently being reviewed by officers, in order to apply the most financially advantageous and yet prudent approach to MRP. The Policy shown as Appendix 1 is based upon the existing MRP Policy Statement but amended to include variations recommended by our consultant advisors, Sector.

16 Risk management

- 16.1 As stated within the Treasury Strategy, a key driver for the review of the CIPFA code has been the exposure to risk evidenced by the Icelandic investments and more generally by the financial crisis. Risk and the management thereof is a feature throughout the strategy and in detail within the treasury management Practices 1 within the Treasury strategy.

17. Financial and legal implications

- 17.1 The Finance and Legal positions are set out throughout the main body of the report.

18. Recommendations

- 18.1 Members are requested to scrutinise this report, note it's contents and pass comments onto Cabinet and Council.

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Background papers

Various records and documents held within Finance
Investec reports
Sector reports.

Appendices

1. MRP strategy
2. Interest rate forecasts
3. Prudential and Treasury indicators
4. Economic background
5. Specified and non specified investments
6. Approved countries for investments
7. Treasury Management Practices

Minimum Revenue Provision

1. What is a Minimum Revenue Provision?

The Council uses borrowing to fund some items of Capital expenditure which is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The Council is obliged to repay the principal sum borrowed together with any interest attached to the borrowing. The repayment of principal has to be set aside from revenue and it would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred. The amount to be provided is therefore spread over time such that the total sum is available to cover the liability for repayment as it occurs. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year (in practice this would mean that there is no outstanding borrowing to repay).

The share of Housing Revenue Account CFR is not subject to an MRP charge and excluded from the calculation.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Minimum Revenue Provision Policy Statement 2011/12

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/2008, and assessed MRP for 2007/2008 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

In setting the Minimum Revenue Provision Policy, Medway Council has regard to the guidance and will set a policy to ensure a prudent provision for the repayment of debt.

The major proportion of the MRP for 2011/12 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance.

Certain expenditure reflected within the debt liability at 31 March 2011 will, under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (or annuity method if appropriate). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

The Council will treat all expenditures as not ranking for MRP until the year after the scheme or asset to which they relate is completed and/or brought into use, rather than confine this approach solely to expenditures treated for MRP purposes under Option 3

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), or where borrowing has occurred but will be repaid by future Capital Receipts or agreed income from other source, there will be no Minimum Revenue Provision made.

Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector: interest rate forecast – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics: interest rate forecast – 12.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

UBS: interest rate forecast (for quarter ends) – 6.1.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

2. Survey of Economic Forecasts

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2011		ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	2.00%		0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.50%		2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.80%		0.50%	0.50%	0.60%	1.20%

Prudential and Treasury Indicators

TABLE 3: PRUDENTIAL INDICATORS	2011/2012	2012/2013	2013/2014
Extract from budget and rent setting report	estimate	estimate	estimate
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	48,923	12,452	3,854
HRA (applies only to housing authorities)	5,572	6,705	5,060
TOTAL	54,495	19,157	8,914
Ratio of financing costs to net revenue stream			
Non - HRA	2.96%	2.82%	2.40%
HRA (applies only to housing authorities)	14.39%	13.92%	20.46%
Net borrowing requirement			
brought forward 1 April	93,013	89,032	128,204
carried forward 31 March	89,032	128,204	123,541
in year borrowing requirement	-3,980	39,172	-4,663
Capital Financing Requirement as at 31 March			
Non – HRA	209,543	201,845	195,464
HRA	22,013	33,013	33,013
TOTAL	231,556	234,858	228,477
Annual change in Cap. Financing Requirement			
Non – HRA	-165	-7,698	-6,381
HRA	735	11,000	0
TOTAL	570	3,302	-6,381
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	-9.46	-18.69	-8.37
Increase in average housing rent per week	1.35	3.14	2.46

TABLE 4: TREASURY MANAGEMENT INDICATORS	2011/2012	2012/2013	2013/2014
	estimate	estimate	estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	414,212	415,644	406,425
other long term liabilities	8	8	8
TOTAL	414,220	415,652	406,433
Operational Boundary for external debt -			
borrowing	376,556	377,858	369,477
other long term liabilities	8	8	8
TOTAL	376,564	377,866	369,485
Actual external debt	163,325	153,312	143,312
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	40%	40%	40%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£150,000	£150,000	£150,000

TABLE 5: Maturity structure of fixed rate borrowing during 2011/2012	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

Economic Background

Economic Background

4.1. Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland in November, culminated in Ireland also having to take a bail out. At the time of writing (early January 2011) there is major concern that Portugal will also shortly need to take a bail out. That, in turn, would then stoke major concerns as to whether the current size of the bail out facility put together by the EU and IMF would be big enough to cope with any crisis that then blew up over Spanish government debt.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

4.2 UK economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The result of fiscal contraction will be major job losses during this period, in particular in public sector services. This is likely to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a generally negative trend starting in mid 2010. Mortgage approvals are also at very weak levels, all of which indicates that the housing market is likely to be weak in 2011.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. Growth in quarter 3 @ +0.7% was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which may be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and then gradually declined to 3.1% in September (RPI 4.6%). However, the outlook from there is a rising trend which could even reach as much as 4% in early 2011 before starting to subside again. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support

economic growth, has evaporated after the surprises of the Q3 GDP figure of +0.7% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

Sector's central view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors viewed UK government gilts as being a safe haven from EU government debt during mid 2010. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

4.3 Sector's forward view

It is currently difficult to have confidence as to exactly how strong UK economic growth is likely to be during 2011/2012, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the strength / weakness of economic growth in our major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not adequately address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential, in the US, for more quantitative easing, and the timing of this , and its subsequent reversal in both the US and UK
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
- political risks in the Middle East and Korea

The overall balance of risks is weighted to the downside and there is some residual risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	* Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies **	See note 1 and 2	In-house and Fund Manager
Banks nationalised by high credit rated (sovereign rating) countries	See note 1 and 2	In-house and Fund Manager
Government guarantee (explicit) on ALL deposits by high credit rated (sovereign rating) countries**	See note 1 and 2	In-house and Fund Manager
UK Government support to the banking sector (implicit guarantee) ***	See note 1 and 2	In-house and Fund Manager
Collateralised deposit (see note 3)	UK sovereign rating	In-house and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1	In-house
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See Note 2	Fund Manager
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See note 1	In-house
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See Note 2	Fund Manager
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	See note 1	In-house
Certificates of deposit issued by banks and building societies NOT covered by UK Government guarantee support package (implicit guarantee)	See Note 2	Fund Manager
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AAA	In-house buy and hold and Fund Manager
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Government Liquidity Funds	* Long-term AAA volatility rating V1+	In-house and Fund Managers
Money Market Funds	* Long-term AAA volatility rating V1+	In-house and Fund Managers

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

Note 2. Inclusion within the Investec approved Counterparty list as detailed in paragraph 13.2 and appendix 10 TMP 1.1

** e.g. Australia (AA+), Singapore (AAA), Hong Kong (AA); need to specify list of countries approved for investing with their banks

***The original list of banks covered when the support package was initially announced was: -

- . Abbey (now part of Santander)
- . Barclays
- . HBOS (now part of the Lloyds Group)
- . Lloyds TSB
- . HSBC
- . Nationwide Building Society
- . RBS
- . Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- . Bank of Scotland
- . Barclays
- . Clydesdale
- . Coventry Building Society
- . Investec Bank
- . Nationwide Building Society
- . Rothschild Continuation Finance plc
- . Standard Life Bank
- . Tesco Personal Finance plc
- . Royal Bank of Scotland
- . West Bromwich Building Society
- . Yorkshire Building Society

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Sector duration rating

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	40%	5 Years
Term deposits – banks and building societies	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1 and 2	In-house and Fund manager	40%	As per Sector duration rating and see note 3
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See note 1 and 2	In-house and Fund manager	40%	As per Sector duration rating and see note 3
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	See note 1 and 2	In-house and Fund manager	40%	As per Sector duration rating and see note 3
UK Government Gilts	UK sovereign rating	In-house and Fund Manager	40% In-house 100% Investec	In-house see note 1, Investec see note 2
Bonds issued by multilateral development banks	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

Note 2, Inclusion within the Investec approved Counterparty list as detailed in Section 13.2 and appendix 10 TMP 1.1

Note 3, Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years.

Approved countries for investments

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Australia
- Belgium
- Hong Kong

AA

- Japan
- Kuwait
- Qatar (AA S&P rating)
- UAE

AA-

- Italy
- Saudi Arabia

TREASURY MANAGEMENT PRACTICES

January 2011

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1 TMP1 RISK MANAGEMENT

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

This organisation will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- green – 3 months
- red – 6 months
- orange – 1 year
- blue – 1 year (applies to nationalised or semi nationalised UK banks)
- purple – 2 years
- yellow – 5 years

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector "Guide to Establishing Credit Policies April 2009" for a full explanation.

5. Credit ratings for individual counterparties can change at any time. The Finance Support Manager is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
 - The quality financial press
 - Market data
 - Information on government support for banks and
 - The credit ratings of that government support
7. Maximum maturity periods and amounts to be placed in different types of investment instrument are specified in paragraph 8 and TMP 1 schedule 1
8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
 - Maximum amount to be placed with any one institution - £25m and for those with a sector duration of less than 12 months £20m.
 - Group limits where a number of institutions are under one ownership – maximum of £25m and for those with a sector duration of less than 12 months £20m.
 - Country limits – a minimum sovereign rating of AA- from Fitch Ratings is required for an institution to be placed on our approved lending list, maximum investment in any one country is £40m with the exception of UK which is unlimited. The list of countries which currently meet this criteria is: -

AAA	AA+	AA	AA-
Canada	Australia	Hong Kong	Italy
Denmark	Belgium	Japan	Saudi Arabia
Finland		Kuwait	
France		Qatar	
Germany		UAE	
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			
U.K.			
U.S.A.			

9. Investments will not be made with counterparties that do not have a credit rating in their own right
10. The definition of **'high credit quality'** ** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail **minimum procedural formalities** in terms of the placing of those investments by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
11. The Council's external fund manager(s) will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however the fund manager(s) may use a subset of the counterparty list so derived.
12. The counterparty list for the in-house team is available for members if required but is not published in this document due to the sensitive nature of this information

Funds invested with Fund Managers

The investment portfolio, which is invested with fund managers, must comply with the Treasury Strategy. In order to manage credit and counterparty risk management the current fund manager also uses a monitoring tool, which incorporates credit ratings, CDS data as well as market information.

The minimum credit criteria to be used by the cash fund manager(s) are as follows: -

	Fitch
Long Term	AA-
Short Term	F1+
Individual/Financial Strength	C
Support	1

Investec also have regard to Standard and Poor's ratings which are monitored by Bloomberg and updated manually on a regular basis.

- a. Procedure for adding names to the Lending List
For a borrower to be considered for entry onto the lending list it should first meet the minimum credit rating. Once this condition has been met, the sponsor, be it dealer or fund manager, should communicate with the fixed income credit team and request the borrower's inclusion. If the credit team after their due diligence are comfortable for the name to be added to the list, a brief proposal should be written and presented at the next Risk Committee meeting. If the Risk Committee approves of the new borrower, Vendor Management should update the lending list, communicate this to the dealers and fund manager.
- b. Monitoring the Lending List on an ongoing basis
The lending list will be formally reviewed by the Fixed Income Credit Team on a monthly basis and on an ongoing basis by the Fixed Income Rate Team.
- c. Procedure for deleting names from the Lending List

If a name on the list is downgraded below any of the above ratings it will be immediately deleted from the list. Any other name can be deleted if the Credit Team believes the borrower is likely to be downgraded. If a borrower is removed from the lending list, any existing deposits or certificates of deposit can be run to maturity provided the client and credit team are happy to do so. Otherwise the investment will be sold at the first available opportunity.

d. Monitoring client compliance with the Lending List

We only lend to the counterparties on our Standard Lending List even if the client provides Investec with a broader lending list. This ensures the team is monitoring all the banks we feel comfortable with properly. The client's individual limits to banks are set up in Thinkfolio, an automated system for checking counterparty limits every time we deal. Any changes to counterparty limits need to be communicated to Vendor Management ASAP so that the changes can be made to Thinkfolio.

e. Credit Default Swap levels (CDS's)

CDS's for our counterparties are monitored on a daily basis from data provided by Bloomberg. The CDS market has both a speculative and bank credit worthiness (insurance) element. The mix between these two elements is not yet transparent and thus a judgment is called for as to the usefulness of CDS as a monitoring tool.

Our approach is to monitor the trends in CDS's for all the banks on the standard lending list over a year to date, one year, one month, one week and daily basis. Any concerning trends will result in the bank being excluded from longer term lending or in rare circumstances suspended from future investing and/or existing assets sold.

f. Subjective Overlay

The Fund Managers "score" the markets current attitude to our counterparties on the standard lending list. A low score (minimum 1) reflects strength and a high score (maximum 5) reflects a more negative view. Three characteristics of a banks trading patterns are evaluated and thus the total score range is 3 -15. The lower the score –the longer the maturity we would be prepared to take for a qualifying counterparty on our standard lending list. A high score will limit the maturity level.

Scores are given for the following three important tests:

Will a bank buy back its own certificates of deposits (CDs) from us?

If the answer is "Yes" this is seen as a signal that there is satisfactory liquidity and a low score will result. A "No" will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.

Is the bank a frequent or rare issuer of CDs?

Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses "may be full of the name" or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.

Do CDs issued by the banks trade "well" in the secondary market?

The market's appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

13. Maximum maturity periods and amounts to be placed in different types of investment instrument are specified in paragraph 14 and TMP 1 schedule 1

14. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution – 20% of the total sum of managed portfolio.
- Group limits where a number of institutions are under one ownership – 20% of the total sum of managed portfolio.
- Country limits – a minimum sovereign rating of AA- from Fitch Ratings is required for an institution to be placed on our approved lending list, maximum investment in any one country is £40m with the exception of UK which is unlimited. The list of countries which currently meet this criteria is: -

AAA	AA+	AA	AA-
Canada	Australia	Hong Kong	Italy
Denmark	Belgium	Japan	Saudi Arabia
Finland		Kuwait	
France		Qatar	
Germany		UAE	
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			
U.K.			
U.S.A.			

- Investments will not be made with counterparties that do not have a credit rating in their own right
- The definition of **'high credit quality'** ** in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail **minimum procedural formalities** in terms of the placing of those investments by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
- The counterparty last for Investec is available for members if required but is not published in this document due to the sensitive nature of this information

1.2 LIQUIDITY RISK MANAGEMENT

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1 Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day with a guide balance of no more than £300,000 overdrawn or in credit.

1.2.2 Details of:

a. Standby facilities

The bank allows a £2m overdraft facility on the group accounts. Surplus funds are held on the daily account and are currently not swept into an interest bearing account as the interest bearing account is currently at its limit. If funds are received after the Treasury Management Section has completed its deals for the day the section will attempt to deposit funds in an account, which is available if it is within the permitted time frame.

b. Bank overdraft arrangements

A £2m overdraft at 1% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.

c. Short-term borrowing facilities

The Council accesses temporary loans through approved brokers on the London money market.

d. Insurance/guarantee facilities

There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Special payments

24 hours notice must be given to the Treasury Team for all special payments (CHAPS) above £100,000.

1.3 INTEREST RATE RISK MANAGEMENT

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Details of approved interest rate exposure limits

the overall borrowing limit 2011-12	£414,220,000
the percentage of the overall borrowing portfolio which may be outstanding by way of short term borrowing	50%

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

The Chief Finance officer is responsible for incorporating the limits identified in 1.3.1 and 1.3.3 into the Annual Treasury Management Strategy, and for ensuring compliance with the limits.

The Treasury Management Section monitors interest rates very closely on a daily basis and any significant alterations would be reported immediately. Interest rates affect all decisions made on borrowing and investments.

1.3.3 Upper limit for variable interest rate exposure

Upper limit for variable interest rate exposure 40%

1.3.4 Upper limit for fixed interest rate exposure

Upper limit for fixed interest rate exposure 100%

1.3.5 Policies concerning the use of instruments for interest rate management

- a. Forward dealing
Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than 24 hours forward then the approval of the Finance Support Manager or Principal Accountant is required.
- b. Callable deposits
The Council will use callable deposits as part as of its Annual Treasury Strategy statement. The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the Annual Treasury Strategy statement.
- c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs are considered as part of the annual borrowing strategy. The Chief Finance Officer must approve all borrowing for periods in excess of 364 days.

1.4 EXCHANGE RATE RISK MANAGEMENT

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

- a. As a result of the nature of Medway Council's business, Medway Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Medway Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the council will eliminate all foreign exchange exposures as soon as they are identified.
- b. Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest

opportunity unless Medway Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.5 REFINANCING RISK MANAGEMENT

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets.

1.5.1 Debt/other capital financing, maturity profiling, policies and practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a. the generation of cash savings at minimum risk;
- b. to reduce the average interest rate;
- c. to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to full Council in the Annual Treasury Outturn Report.

1.5.2 Projected capital investment requirements

The responsible Officer will prepare a three-year plan for capital expenditure for the Council. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges. This will include using prudential borrowing to fund invest to save schemes.

Under the new capital financing system, the definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice (SORP).

1.5.3 Policy concerning limits on affordability and revenue consequences of capital financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue

income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this three year period.

The Council will use the definitions provided in the Prudential Code for borrowing (64), capital expenditure (65), capital financing requirement (67), debt (67), financing costs (68), investments (69), net borrowing (70), net revenue stream (71), other long term liabilities (72).

1.5.4 Capital receipts generated by the HRA

75% of capital receipts generated by RTB and other dwelling sales will be pooled together with 50% of capital receipts from the sale of land without buildings (net of capital allowances), i.e. paid to the Secretary of State, with the exception of 'qualifying disposals' (e.g. large and small scale voluntary transfers of housing to social registered landlords).

1.5.5 PFI, Partnerships, ALMOs and guarantees

This is currently not applicable to Medway Council.

1.6 LEGAL AND REGULATORY RISK MANAGEMENT

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1 References to relevant statutes and regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007

- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 f(Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA (housing authorities) – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)
- CIPFA’s Treasury Management Codes of Practice and Guidance Notes 2009,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2009
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority’s Code of Market Conduct
- The Council’s Standing Orders relating to Contracts
- The Council’s Financial Regulations
- The Council’s Scheme of Delegated Functions

1.6.2 Procedures for evidencing the council’s powers/authorities to counterparties

The Council’s powers to borrow and invest are contained in legislation.

- Investing: Local Government Act 2003, section 12
- Borrowing: Local Government Act 2003, section 1

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the council's political risks and management of same

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Assistant Director Housing and Corporate services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful

1.6.5 Chief Finance officer

The Chief Finance Officer's duty is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY RISK MANAGEMENT

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

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

The Council will therefore:-

- a. seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check, which minimises such risks.
- b. Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c. Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d. Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1 Details of systems and procedures to be followed, including internet services

Procedures

Written procedures exist for completing the day-to-day treasury function, which is supported by the Treasury Strategy and Treasury Management Practices.

The daily treasury balances are obtained from Natwest bankline, the council's on-line banking system and all treasury payments are made using this system or the councils creditors system.

CHAPS/BACS payments are made via the on-line banking system – they are input by a treasury officer and approved by a finance service manager.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation where that is a requirement of the institution being dealt with.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the treasury and income team leader for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the treasury and income team leader for resolution.
- Contract notes for transactions carried out by the external fund managers will be received as executed and maintained.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The treasury team enters into the treasury diary when money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury team is an authorised signatory.
- Payments can only be authorised using a proforma signed by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.
- Capital and interest withdrawals and capital injections in respect of monies managed by external fund managers can only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).

Checks

- The bank reconciliation is carried out weekly for the housing benefit account and fortnightly for the general account and creditor account from the bank statement to the financial ledger.
- The bank statements are also checked for large transactions to ensure that they are valid transactions.
- The investment and borrowing spreadsheets are reconciled to the balance sheet ledger codes at the end of each month and at the financial year-end.
- A cost of borrowing and investment income earned is produced every month when a review is undertaken against the budget for interest earnings and debt costs.
- The valuations and investment income statements received monthly from the Council's fund managers will be checked and retained for audit inspection. The authority will ensure that the external funds we invest in, are accounted for in accordance with proper accounting practices.
- We have complied with the requirements of SORP (pre 1st April 2010 FRS 26) and IFRS Code (post 1st April 2010 IAS 39) and will account for the fund as Fair Value through Profit or

Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Income and Expenditure Account.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated on the relevant treasury paperwork.
- Periodic interest payments of PWLB and other long-term loans are reconciled and entered into the treasury diary. This is used to check the amount paid to lenders.
- Average equated capital loans fund interest rates are calculated monthly using information from PWLB and LOBO schedules. A reconciliation is carried out monthly between the financial ledger Integra and the PWLB and LOBO schedules.
- These interest and expense rates are then used to calculate the principal and interest charges to the General Fund and the Housing Revenue Account recharge.

1.7.2 Emergency and contingency planning arrangements

If personal computers are unavailable methods are in place for repaying loans, investing with counterparties, receiving repayments of investments and borrowing payments via fax and/or phone. Paper copies of the previous days treasury activity are always held and a paper-based diary is used for information on payments and repayments. The introduction of Internet based Bankline during 2008/09 has enabled remote access to make payments, transfers and check balances. All members of the treasury management team are familiar with this plan and new members will be briefed on it.

1.7.3 Insurance cover details

Fidelity insurance

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees.

This cover is limited to £5m for any one event with an excess of £1m for any one event

Professional Indemnity Insurance

The Council also has a 'Professional Indemnity' insurance policy with Travelers Insurance Company, which covers loss to the Council from the actions and advice of its officers, which are negligent and without due care. This cover is limited to £5m for any one event with an excess of £100,000 for any one event.

Business Interruption

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

1.8 MARKET RISK MANAGEMENT

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

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

1.8.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs etc)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Treasury Management Strategy Statement.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS**Specified Investments**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	* Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies **	See note 1 and 2	In-house and Fund Manager

Term deposits with nationalised banks and banks and building societies operating with government guarantees

	* Minimum Credit Criteria	Use
Banks nationalised by high credit rated (sovereign rating) countries	See note 1 and 2	In-house and Fund Managers
Government guarantee (explicit) on ALL deposits by high credit rated (sovereign rating) countries**	See note 1 and 2	In-house and Fund Managers
UK Government support to the banking sector (implicit guarantee) ***	See note 1 and 2	In-house and Fund Managers

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

Note 2. Inclusion within the Investec approved Counterparty list as detailed in paragraph 13.2 and appendix 10 TMP 1.1

Sector note: if clients wish to use a subsidiary of a parent bank and the subsidiary does not have a credit rating in its own right, then details of the guarantee from the parent should be added to this appendix. Sector suggests that clients should only rely on unconditional guarantees.

** e.g. Australia (AA+), Singapore (AAA), Hong Kong (AA); need to specify list of countries approved for investing with their banks

***The original list of banks covered when the support package was initially announced was: -

- Abbey (now part of Santander)
- Barclays
- HBOS (now part of the Lloyds Group)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

Collateralised deposit (see note 3)	UK sovereign rating	In-house and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1	In-house
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See Note 2	Fund Manager
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See note 1	In-house
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See Note 2	Fund Manager
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	See note 1	In-house

Certificates of deposit issued by banks and building societies NOT covered by UK Government guarantee support package (implicit guarantee)	See Note 2	Fund Manager
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AAA	In-house buy and hold and Fund Manager
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	* Long-term AAA volatility rating V1+	In-house and Fund Manager
2. Money Market Funds	* Long-term AAA volatility rating V1+	In-house and Fund Manager

Note 1. Award of "Creditworthiness" Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

Note 2, Inclusion within the Investec approved Counterparty list as detailed in Section 13.2 and appendix 10 TMP 1.1

Note 3. as collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.8.2 NON-SPECIFIED INVESTMENTS:

A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Sector duration rating

Note 1. Award of "Creditworthiness" Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	40%	5 Years
Term deposits – banks and building societies	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 2	Fund Manager	40%	See Note 3
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	See note 2	Fund Manager	40%	See Note 3

Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	See note 1	In-house	40%	As per Sector duration rating
Certificates of deposit issued by banks and building societies NOT covered by UK Government guarantee support package (implicit guarantee)	See note 2	Fund Manager	40%	See Note 3
UK Government Gilts	UK sovereign rating	In-house and Fund Manager	40% In-house 100% Investec	In-house see note 1, Investec see note 2
Bonds issued by multilateral development banks	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2

Note 1. Award of "Creditworthiness" Colour by Sector Treasury services as detailed in paragraph 13.2 and appendix 10 TMP 1.1

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.

Note 2, Inclusion within the Investec approved Counterparty list as detailed in Section 13.2 and appendix 10 TMP 1.1

Note 3, Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years.

2 TMP 2 PERFORMANCE MEASUREMENT

2.1 EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS

The Council has a number of approaches to evaluating treasury management decisions:

For performance outcomes:

- a. we will establish monthly review meetings with the treasury management team
- b. reviews with our treasury management consultants
- c. annual treasury outturn report as reported to full council
- d. mid year review to full council
- e. comparative reviews
- f. strategic, scrutiny and efficiency, VFM reviews

2.1.1 Periodic reviews during the financial year

The Finance Support Manager, Principal Accountant and Treasury and Income Team Leader will introduce a monthly meeting to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include :

- a. Total debt including average rate, actual rate and maturity profile
- b. Total investments including average rate, actual rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants approximately every 4 months to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

An Annual Treasury Outturn Report is submitted to the Council each year after the close of the financial year, which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. comparison of return on investments to the investment benchmark
- h. compliance with Prudential and Treasury Indicators
- i. other

2.1.4 Comparative review and benchmarking

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- other

2.2 Benchmarks and Calculation Methodology

Medway Council is a member of Treasury Management and Debt Management Benchmarking Clubs, which are run by CIPFA.

Debt management

- Average rate on all external debt
- Average period to maturity of external debt

Investment

The performance of investment earnings will be measured against the following benchmarks: -

a. in house investments

- Other local authorities
- Other market products
- Cash fund manager

b. cash fund manager

- 7 day Local Authority Deposit Rate
- In-house treasury team

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

- 2.3.1 Treasury services will be procured in accordance with Council procurement rules that are set to establish value for money

3 TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

3.1.1 Records to be kept

The following records will be retained: -

- Daily cash balance forecasts
- Daily bank balances from Natwest bankline
- Investment limits & borrowing analysis
- Money market rates obtained by telephone from brokers
- Dealing sheet for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager
- Fund manager valuation statements

3.1.2 Processes to be pursued

- Cash flow analysis
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer best value)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, investment returns, etc).

3.1.3 Issues to be addressed

3.1.3.1. In respect of every treasury management decision made the Council will:

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

3.1.3.3 In respect of investment decisions, the Council will:

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

4 TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund);
- leasing.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The latest version of the Treasury Management Strategy is appended to this document.

4.3 APPROVED TECHNIQUES

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- PWLB
- The use of structured products such as callable deposits

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
European Investment Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●
Other Methods of Financing		
Government and EC Capital Grants		
Lottery monies		
PFI/PPP		
Operating leases		

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 INVESTMENT LIMITS

The Treasury Management Strategy Statement sets out the limits and the guidelines for use of each type of investment instrument.

4.6 BORROWING LIMITS

The Treasury Management Strategy Statement details the Prudential and Treasury Indicators.

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

5.1 LIMITS TO RESPONSIBILITIES / DISCRETION AT COUNCIL/EXECUTIVE LEVELS

- a) The full Council will set the Prudential Indicators and revise them as and when necessary.
- b) The Business Support Overview and Scrutiny committee, Cabinet and then Full Council will receive and review reports on treasury management policies, the annual treasury management strategies and the mid year report.
- c) The Business Support Overview and Scrutiny committee and Cabinet will receive and review Treasury Management Practices.
- d) Cabinet and Audit Committee will receive and review the Annual Treasury Outturn report.
- e) Cabinet will receive and review Treasury Management monitoring reports.
- f) The Chief Finance Officer will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
- g) Cabinet will consider and approve the Treasury Management Budget.
- h) The Business Support Overview and Scrutiny committee and Cabinet will approve the segregation of responsibilities via the TMP Schedules.
- i) The Finance Support Manager will receive and review external audit reports and put recommendations to the Audit Committee.
- j) Approving the selection of external service providers and agreeing terms of appointment will be decided by Cabinet in accordance with Financial Regulations.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

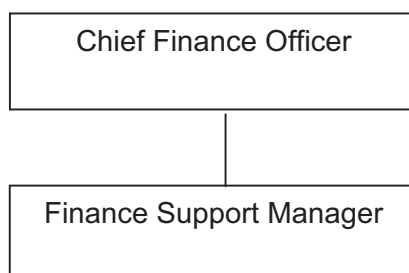
- a) Approvals of payments on Natwest Bankline payments system are segregated from input of payments.
- b) Treasury paperwork approval is segregated from approval of payments on Bankline.
- c) A check is made by the approver on the validity of the deals and that all payments due are being made.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

All decisions on borrowing, investing or financing are delegated by Medway Council to the Chief Finance Officer. Further delegation of responsibility is made by the Chief Finance Officer to his staff, who are all required to act in accordance with CIPFA's code on Treasury Management.

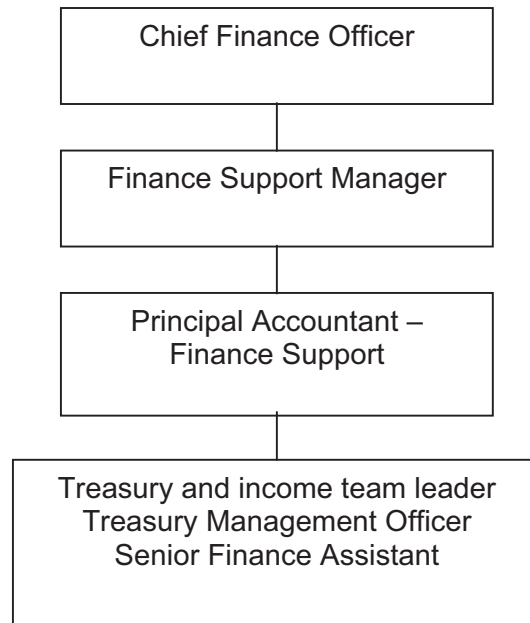
The structure for decision-making and delegation of responsibility for long-term borrowing is as follows: -

1. Strategy and decisions on borrowing and lending.



It is the responsibility of the Finance Support Manager to prepare the annual strategy for approval by the Chief Finance Officer. In addition he will consider and decide on detailed proposals for borrowing and investment made by the Finance Support Manager.

2. Day to day cash flow management delegated to the Finance Support Manager and Treasury Team.



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Chief Finance Officer

The Chief Finance Officer will:

- a) Ensure that the treasury system is specified and implemented
- b) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- c) In setting the prudential indicators, the Chief Finance Officer will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
- d) Establish a measurement and reporting process that highlights significant variations from expectations.
- e) In extreme circumstances make reports to the Council under S114 of the Local Government Finance Act 1988 (Scotland – S95 of the Local Government (Scotland) Act 1973) if the Chief Finance Officer considers the Council is likely to get into a financially unviable situation.
- f) Review the performance of the treasury management function and promote best value reviews.
- g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- h) Ensure the adequacy of internal audit, and liaising with external audit.
- i) Recommend on appointment of external service providers in accordance with council standing orders.

1. The Chief Finance Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

2. The Chief Finance Officer may delegate his power to borrow and invest to members of his staff. The Finance Support Manager, the Principal Accountant Finance Support, the Treasury and Income Team Leader, the Treasury Management Officer or Senior Finance Assistant must conduct all dealing transactions, or staff authorised by the Chief Finance Officer to act as temporary cover for leave/sickness. All transactions must be authorised by an approver who did not conduct the dealing transaction.
3. The Chief Finance Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
4. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
5. It is also the responsibility of the Chief Finance Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2 Finance Support Manager – Treasury Manager

The responsibilities of this post will be: -

- a) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- b) Submit treasury management reports as required to the Business Support Overview and Scrutiny committee and then to full Council.
- c) Execution of transactions and conduct of other day-to-day activities in accordance with the Treasury Management Practices.
- d) Adherence to agreed policies and limits.
- e) Managing the overall treasury management function.
- f) Supervising treasury management staff.
- g) Ensuring appropriate segregation of duties
- h) Monitoring performance on a day-to-day basis.
- i) Submitting management information reports to the Chief Finance Officer.
- j) Maintaining relationships with third parties and external service providers and reviewing their performance.

5.4.3 The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- a) Ensuring that the Chief Finance Officer reports as required to the Business Support Overview and Scrutiny committee, Cabinet and full Council on treasury policy, activity and performance.

5.4.4 The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

- a) Ensuring compliance by the Chief Finance Officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Chief Finance Officer when advice is sought.

5.4.5 Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

5.5 ABSENCE COVER ARRANGEMENTS

At least 2 members of the Treasury Team are available at all times or emergency back up is available. There will be at least three members of staff confident in the undertaking of the daily Treasury activities within the team. There are 6 officers who may approve treasury transactions and a rota is set on a weekly basis to ensure that there are always at least 2 approvers available. Approvals can also be done remotely from any internet terminal.

5.6 DEALING LIMITS

- The dealer must adhere to the agreed lending list. This controls counterparty risk. The dealer is not restricted in who they may borrow from, here the risk is with the counterparty. However the dealer must be aware of the possibility that any counterparty may be “laundering money”.
- Limits on those institutions that the dealer may lend to are set out in these Treasury Management Practices. There is a maximum limit to the deals that may be open with them at any one time. At present, the limits for authorised counterparties is between £10m and £20m depending upon rating for the in-house team or 20% of the Portfolio for Investec. There is also a country limit of £40m save for the UK where there is not a limit for the in-house treasury team. This ensures diversification and therefore decreases risk. This system of limits is discussed in schedule one of this document.
- All treasury management decisions undertaken must adhere to the framework and strategy set out in the Treasury Policy Statement and their schedules. Decisions must operate within limits set by statutory instruments, codes of practice and other regulatory criteria. The dealer must ensure that they are operating within their own limits to decision making as described in part 5.6 of this schedule. A dealer should not assume they have unlimited responsibility by being aware of the responsibilities of others as specified in 5.4.

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

5.8 POLICY ON BROKERS' SERVICES

It is the Council's policy to rotate business between brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

It is not the Council's policy to tape brokers conversations

5.10 DIRECT DEALING PRACTICES

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through direct deals for investments. There are certain types of accounts and facilities, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

Funds that are due to be paid to a named counterparty or payee are transmitted by electronic transfer using the NatWest Clearing House Automated Payments System (or CHAPS). This method allows the transfer of funds from Medway Council's bank accounts to a receiver's account, without need to inform the bank. Medway Council can also receive payments via CHAPS/BACS; the Medway General Account is the designated account for inward payments account no. 90502094 outward payments are made from account no. 90502108.

CHAPS/BACS instructions are entered by the dealer onto the internet Bankline system. Notification of incoming payments is by bank fax. Approved managers authorise and action the payments using a secure system. An audit trail is maintained on the internet Bankline system that shows what was approved, and by whom. Bankline generates a unique reference number for each payment by which it can be tracked and all information is held against.

The close of business daily is as follows: -

	Close of Business	Latest time for payment release
CHAPS	17:00	15:49 or 16:49 for Natwest accounts
BACS	17:00	18:15

There is no minimum threshold on how small a payment can be. There is however an upper limit on total payments made. The total payments may not exceed £10m; if this limit is likely to be breached contact must be made with Nat West informing them of this situation.

There are three levels of users for Bankline; input, approval and two administrators. The Finance Support section maintains a list within Bankline of which members of staff are authorised to access CHAPS/BACS. It also lists the various transactions they are authorised to carry out. In the event of the Bankline system failing instructions for CHAPS/BACS are faxed to Natwest. An authorised signatory countersigns this document.

The dealer enters payments via Bankline and verifies their accuracy, confirming details.

The approver is able to view the payment and approve the transmission of funds after checking the verified entry to the documentation supplied by the dealer. For security reasons no user can enter and then release payments.

The administrators can either enter or approve payments (but not both) as they are set up as "dual" administrators but both would have to approve material changes. They arrange the system privileges that are conferred upon specific users of the Bankline system.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record is prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

6 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL PROGRAMME OF REPORTING

- a) Annual reporting requirements before the start of the year: -
 - review of the organisation's approved clauses, treasury management policy statement and practices
 - strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Mid-year review
- c) Annual review report after the end of the year

6.2 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted Business Support Overview and Scrutiny committee, Cabinet and then to the full Council for approval before the commencement of each financial year.

The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

The Treasury Management Strategy Statement is concerned with the following elements:

- Prudential and Treasury Indicators
- the current treasury portfolio
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

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

6.3 THE ANNUAL INVESTMENT STRATEGY STATEMENT

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both

- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Use of a cash fund manager
- n) Policy on the use of external service providers

6.4 THE ANNUAL MINIMUM REVENUE PROVISION STATEMENT

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 POLICY ON PRUDENTIAL AND TREASURY INDICATORS

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

6.6 MID YEAR REVIEW

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

6.7 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the Business Support Overview and Scrutiny committee and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

6.8 MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every month by the Treasury and Income Team Leader and will be presented to the Principal Accountant.

These reports will contain the following information: -

- a) A summary of transactions executed and reconciled;
- b) degree of compliance with original strategy and explanation of variances.
- c) Any non-compliance with Prudential limits or other treasury management limits.

7 TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

7.3 BUDGETS / ACCOUNTS / PRUDENTIAL INDICATORS

The Finance Support Manager will prepare a three-year medium term financial plan with Prudential Indicators for treasury management, which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Finance Support Manager will exercise effective controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential Indicators
- Review of observance of limits set by Prudential Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4.1 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Chief Finance Officer and DMT, whilst a bi-monthly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

8 TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Cash flow projections are prepared annually, but are reviewed daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

The framework for cash flow projection is set up on a spreadsheet a year in advance, projected forward for the whole of the following year. The model contains all sources of income and expenditure as they appear on the bank statements, grant schedules and creditor payments for previous periods. An estimate for movement on school balances and capital expenditure is also included. A summarised cash flow is produced forecasting cash balances for four years.

8.2 BANK STATEMENTS PROCEDURES

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. The Control Team undertakes a formal bank reconciliation on a weekly basis for the Housing Benefit Account and fortnightly for the General Account and Creditors Account.

8.3 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid immediately where possible.

8.4 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

The Finance Manager Exchequer is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on a daily basis to assist in updating the cash flow models.

8.5 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers team to deposit in the Council's banking accounts.

8.6 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Finance Manager.

9 TMP 9 MONEY LAUNDERING

9.1 PROCEEDS OF CRIME ACT 2002 (POCA)

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is the Monitoring Officer.

- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Monitoring Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

Before accepting loans from individuals, the Council will confirm the identity of the lender.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk.

All transactions will be carried out by BACS or CHAPS for making deposits or repaying loans.

10 TMP 10 TRAINING AND QUALIFICATIONS

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Finance Support Manager to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 DETAILS OF APPROVED TRAINING COURSES

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF

The Finance Support Manager will maintain records on all staff and the training they receive.

10.3 APPROVED QUALIFICATIONS FOR TREASURY STAFF

Preferably CIPFA or alternatively CCAB
AAT
NVQ in Accounting
Relevant Degree
AMCT Diploma in Treasury (Joint ACT/CIPFA)

10.4 QUALIFICATIONS OF TREASURY STAFF

Finance Support Manager – CIPFA
Principal Accountant – CIPFA
Treasury Management Officer – NVQ3 in Accounting

10.5 RECORD OF SECONDMENT OF SENIOR MANAGEMENT

Records will be kept of senior management who are seconded into the treasury management section in order to gain first hand experience of treasury management operations.

10.6 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. The Chief Financial Officer is a member of a CCAB body and there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.7 Member training records

Records will be kept of all training in treasury management provided to members.

10.8 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

11 TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

11.1.1 Banking services

- a) Name of supplier of service is the Natwest Bank.
- b) The branch address is:
Chatham Branch
148 High Street
Chatham
Kent ME4 4DJ
- c) Contract commenced 01/10/05
- d) Cost of service is variable depending on schedule of tariffs and volumes
- e) Payments due monthly and quarterly

11.1.2 Money-broking services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Finance Support Manager and principal account every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Chief Finance Officer.

Name of broker

Tradition UK Ltd
Sterling International Brokers Ltd
Tullett Prebon (UK) Ltd
Martin Brokers (UK) Ltd
ICAP plc

11.1.3 Consultants'/advisers' services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The Finance Support Manager will review the performance of consultants every year to check whether performance has met expectations.

- a) Name of supplier of service is Sector Treasury Services Limited. Their address is 17 Rochester Row, London SW1P 1QT Tel: 0871 6646800
- b) Regulatory status: investment adviser authorised by the FSA
- c) Contract commenced 01/06/2009 and runs for 1 year.
- d) Cost of service is £19,000 per year.
- e) Payments due in May and November.

External Fund Managers

- a) Name of supplier of service is Investec Asset Management Limited.
- b) Regulatory status: external fund manager authorised by the FSA
- c) Their address is:
2 Gresham Street
London EC2V 7QP
- b) Contract commenced 01/4/01 and is reviewed on a regular basis.
- d) Fee scale is 0.15% on the first £15m and 0.125% for fund balances exceeding £15m. Fees are deducted quarterly from the income received.
- e) The fund guidelines, limits, benchmarks and targets agreed with the manager are contained in the investment management agreement.
- f) Valuations and performance data versus the benchmark are provided by the manager monthly. Fund performance review meetings are held semi-annually.

Other Consultancy services may be employed on short-term contracts as and when required.

11.1.4 Credit rating agency

The Council receives a credit rating service through its treasury management consultants, the costs of which are included in the consultant's annual fee.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

12 TMP 12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -
 - Treasury Management Policy Statement
 - Treasury Management Strategy Statement includes Prudential Indicators and Annual Investment Strategy
 - Minimum Revenue provision policy statement
 - Annual Treasury Review Report
 - Treasury Management monitoring reports (e.g. half yearly)
 - Annual accounts and financial instruments disclosure notes
 - Annual budget
 - 3-Year Capital Plan

Minutes of Council / Cabinet / committee meetings

Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

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BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE

27 JANUARY 2011

DRAFT REVENUE AND CAPITAL BUDGET 2011/12 – ADDENDUM REPORT

Report from: Mick Hayward, Chief Finance Officer

Author: Teri Reynolds, Overview and Scrutiny Co-ordinator

Summary

This addendum report provides the committee with an update on the discussions made at the Children and Young People Overview and Scrutiny Committee at its meeting on 20 January 2011 in relation to the draft capital and revenue budget 2011/12.

1. Background

- 1.1 The Children and Young People Overview and Scrutiny Committee met on 20 January 2011 and discussed the draft capital and revenue budget for 2011/12 for areas that fell within the remit of that committee.
- 1.2 The Chief Finance Officer introduced the report and explained to the committee that the final proposed budget would be published within the Cabinet agenda for its 15 February meeting. The draft budget within the report at the committee had been updated to reflect details of the settlement announcement, which had been received in December 2010. He added further that the Cabinet had published a report the previous day, which proposed some staff changes to further close the gap of £23.5 million.
- 1.3 The Chief Finance Officer also referred to a report that the committee had considered earlier in its meeting with regard to special educational need (SEN) provision. The committee recommended the following to the Cabinet: -
 - (a) to acknowledge the urgent and dire need to invest in Medway's special schools, which require improvements to their accommodation, as identified in Medway's SEN Policy and Strategy and that where funding can be secured, this be used to improve the facilities for children with the highest needs of special education;
 - (b) to delegate the Director of Children and Adults to review the findings against the outcomes of the forthcoming Green Paper on SEN.

- 1.4 In reference to these recommendations he explained that officers did consider plans, which required investment but would realise savings in the future, however he warned that this was increasingly difficult due to limiting funding streams.
- 1.5 The Chief Finance Officer and the Director of Children and Adult Services also updated the committee on a Schools' Forum meeting, which had been held since the publishing of the report. They reported that the forum appreciated the challenges faced by the local authority and were supportive. Officers had also given schools the tools to calculate an indicative budget to help with their planning processes.
- 1.6 Members then debated the draft budget and made the following comments to the Business Support Overview and Scrutiny Committee:-
- The recommendations made in relation to SEN provision (outlined at paragraph 2.3 above) should be highlighted in the budget report to Cabinet;
 - The message be sent to Cabinet that when decisions are made with regard to cuts, the long term effect and cost to Medway also be analysed;
 - The Cabinet be made aware of the implications for sixth form education in schools and of both the impact of the likely reduced funding from the Young People's Learning Agency and the removal of Education Maintenance Allowances (EMA);
 - The Cabinet be informed of the concern that all Members of the Council do not have an opportunity to consider possible options for a draft budget.

2. Recommendations

- 2.1 The committee recommend the Business Support Overview and Scrutiny Committee to forward its comments on to the Cabinet when it will consider the draft capital and revenue budget 2011/12 on 15 February 2011.

Lead officer contact

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Background papers

Children and Young People Overview and Scrutiny Committee papers – 20 January 2011.