

CABINET – 20 July 2010

ADDENDA

FINANCIAL MONITORING

Report by the Assistant Chief Executive & Chief Finance Officer

Introduction

1. The Financial Monitoring Report sets out announced in-year reductions to grant funding for 2010/11 and notes that further updates, notifications and guidance would be expected.
2. This addenda sets out updated information plus recommendations from the Schools Forum on 19 July 2010.
3. Changes are also proposed to the 2010/11 Treasury Management Strategy and Investment Strategy, which will require agreement by Council in September 2010.

Reference Part 5 – Grant Reductions in 2010/11

Capital Grants

4. Paragraph 86 of the main report notes that further details were awaited relating to capital grant funding for the CYP&F programme. Notification has now been received that the £0.507m allocation for Extended Schools has been reduced to £0.231m.
5. Specialist Schools Capital Grant – specialist schools are no longer able to apply for a capital grant of £0.025m on redesignation. Six schools were notified before April 2010 that their applications for the grant had been successful and in these cases the grant will be paid in September 2010. Other schools which had applied for the grant after April have been informed that it is no longer available.
6. Play Capital Grant – on 15 July 2010 the Department for Education (DfE) advised that with immediate effect no new contractual liabilities in relation to this programme should be incurred. The DfE stated that they would cover the cost of expenditure already incurred for completed sites, and sites where groundworks/construction has already commenced. However, contractual commitments already entered into in relation to sites where groundworks/construction have not yet commenced will be subject to review by the DfE based on information to be completed by 23 July 2010. Schemes in Oxfordshire potentially affected due to the start dates being later than July 2010, include Play Barton (Barton Adventure Playground) with funding of £0.8m where work was planned to start in September 2010. In addition a number of Playfinder Schemes each with funding of £0.047m may

also be affected subject to feedback from the DfE. These include the Ark-T Centre (John Bunyan Baptist Church), and schemes in Carterton, Shipton Under Wychwood, Blewbury, Middle Barton Playing Fields, Hook Norton, Oxford (Sandfield Road & Bury Knowle Park), Appleton, South Oxfordshire Adventure Playground, and Banbury (St Louis Meadow).

7. Sure Start, Early Years and Childcare Grant (SSEYCG) – a meeting with the grant representatives has taken place and notification of any change to the Council’s funding allocation is awaited. DfE asked local authorities to not to enter any further commitments for these programmes as of 16th July 2010.
8. £1.3m of the original £2.5m Harnessing Technology capital grant allocation was originally planned to be allocated to schools on a formula basis and £1.2m retained centrally. Subsequently notification was received that the total allocation will reduce by 50%.
9. The previous government made 25% of this grant payable to Local Authorities (LA) and 75% payable to schools. The Harnessing Technology Grant position for 2010/11 was originally:

LA Allocation (25%)	£0.625m
LA Additional from schools – Consultant support (8%)	£0.201m
Schools Contribution to Bandwidth Upgrades	£0.400m
Schools Retained Allocation	£1.275m
TOTAL Oxfordshire	£2.501m

10. On 19 July 2010, Schools Forum considered the reduction in the Harnessing Technology Grant 2010/11 grant and recommended that in addition to the remaining £1.25m, that £0.4m of 2009/10 Harnessing Technology grant currently in an ICT reserve for school broadband upgrades should instead be used to supplement this year's allocation to schools. Schools Forum were advised that the original budget set aside to fund the school broadband upgrades was insufficient to achieve additional bandwidth across the county The total allocation of £1.650m was recommended to be utilised as follows::

LA – Consultant support	£0.200m
Schools Retained Allocation	£1.450m
TOTAL Oxfordshire	£1.650m

11. This proposal to manage the reduction retains the consultant support for the learning platform in 2010/11 whilst retaining this year's allocation to schools. This provides schools with continued support to embed the learning platform in teaching and learning so schools maximise the benefits of the considerable investment made to date.
12. The Schools Forum also agreed to consider the continuing support for Schools through the potential offer of buy-back from 2011/12. It was agreed that this would enable planning for potential staffing implications.

13. These changes have not yet been incorporated in the Capital Programme and will be reflected in the October update as required

Revenue Grants

14. Annex 3e of the main report sets out the proposed reductions in grant funded expenditure. A revised Annex 3e is attached to this addendum which removes the £0.020m reduction for Young People Substance Mis-Use & Partnership Grant. No reduction is now proposed for this grant. In place of this, a further £0.020m reduction is proposed for Extended Rights to Free Travel, taking the total reduction for this grant to £0.420m. A £0.059m allocation will remain.
15. Notification has been received that Oxfordshire will receive £0.346m Local Delivery Support Grant, a ring-fenced grant to help with preparations for the delivery of Diplomas, Functional Skills and Foundation Learning working in conjunction with the 14-19 Partnership and consortia. There was an expectation that this grant would not be received in 2010/11 and no funding was built into the budget. This is additional revenue funding.

Academies

16. On 26 May 2010, the Coalition Government launched its proposals for creating academies and free schools. The Secretary of State for Education wrote to all schools rated as outstanding by Ofsted inviting them to become a fast track academy from September 2010. Other schools were also asked to register their interest in becoming an academy.
17. Nine secondary and five primary schools in Oxfordshire have registered an interest. Of these, two primary and four secondary schools are rated as outstanding by Ofsted inspection. There are currently 30 outstanding primary and secondary schools in Oxfordshire.
18. The schools expressing interest currently receive delegated funding for support services purchased through service level agreements with the local authority. Although academies can continue to buy support services, the effect of the potential loss of this income could be significant. As a result of topslicing arrangements there may also be an associated reduction in central budgets, including behaviour, termination of employment, free school meal eligibility.
19. Schools converting to academy status would retain any surplus balances. There is a risk that this may impact on the viability of the School Deficit and Loan Scheme, which is funded from school balances.
20. The implications on the local authority and maintained schools of the creation of free schools are unclear and further guidance is awaited.

Changes to the 2010/11 Annual Treasury Management Strategy & Annual Investment Strategy

21. Under authority as set out in the Annual Treasury Management Strategy & Annual Investment Strategy, the Treasury Management Strategy Team (TMST) have agreed that the existing external fund manager mandate with

Investec Asset Management is no longer suitable in the current financial and economic conditions, and that the portfolio should be managed under a different mandate, namely the Dynamic Fund.

22. In order for the TMST to arrange the transfer of the portfolio to the new mandate changes are required to the Specified and Non-Specified Investment instruments section of the Strategy to include the following:
 - Money Market Funds with a Constant Net Asset Value
 - Other Money Market Funds and Collective Investment Schemes
 - Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated
23. The full list of Specified and Non Specified Investment instruments are set out in Annex 1.
24. At present, the TMST limits the amount lent to any bank, or banks within the same group structure to 10% of the investment portfolio. It is proposed to continue to restrict deposits to 10% of the investment portfolio with the exception of deposits on instant access call accounts, where the individual bank or group limit as agreed in the Annual Investment Strategy will apply.
25. Given the continued turmoil in the banking sector it is further proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

RECOMMENDATIONS

26. **The Cabinet is RECOMMENDED to:**
 - (a) **note the report;**
 - (b) **note the changes to 2010/11 grant allocations;**
 - (c) **agree the change to the allocation of Harnessing Technology grant as recommended by the Schools Forum on 19 July 2010;**
 - (d) **recommend Council to approve the reductions in revenue grant funded expenditure and related virements as set out in Revised Annex 3e;**
 - (e) **recommend Council to agree the changes to the Specified and Non-Specified Investment instruments section of the Treasury Management Strategy;**

- (f) **recommend Council to agree that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy can be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.**

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

Background papers: Directorate reports

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July 2010

ANNEX 1

Specified Investments

All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term A, Individual rating C with support rating 2 or individual rating B with support rating 3, Minimum Sovereign Rating AA	In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A	In-house
Term Deposits with Part Nationalised banks by the UK Government	N/A	In-house
Term Deposits with Banks and Building Societies signed up to the UK Government support to the banking sector	Fitch short-term F1, Long-term A, Individual rating C with support rating 2 or individual rating B with support rating 3, Minimum Sovereign Rating AA	In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis. Fund Managers
<u>Money Market Funds with a Constant Net Asset Value</u>	<u>AAA</u>	In-house and Fund Managers
<u>Other Money Market Funds and Collective Investment Schemes¹</u>	<u>Minimum equivalent credit rating of A+ across all 3 Ratings Agencies. These funds do not have short-term or support ratings.</u>	In-house and Fund Managers
UK Government Gilts	AAA	In-house on a buy and hold basis. Fund Managers
Treasury Bills	N/A	Fund Managers

¹ **I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.**

Non-Specified Investments

1. A maximum of 50% of the portfolio will be held in non-specified investments.

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year) ²	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-, Individual rating B, with support rating 2	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (eg. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-, Individual rating B, with support rating 2 or Individual rating B/C with support rating 1	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	3 years in-house, 10 years fund managers

² Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

UK Government Gilts with maturities in excess of 1 year	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house. Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers
<u>Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated</u>	<u>N/A</u>	<u>In-house and Fund Managers</u>	<u>50% In-house; 100% External Funds</u>	<u>Pooled Funds do not have a defined maturity date</u>
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers