



Contract and Financial Procedure Matters Report

SUMMARY

- 1.1 This report deals with the following items that require reporting to and approval by Council Cabinet under contract and financial procedure rules . . .
- The approval of the submission of a final application to the Department of the Environment, Food and Rural Affairs - DEFRA – to secure additional funding required to fund the flood defence scheme Markeaton Catchment Action Management Plan – Phase 1.
 - The approval of the appointment of Commensura to manage a contract for the supply of temporary staff, and the treatment of estimated savings arising from this new arrangement.
 - Reporting the position for the first six months of 2005/06 for Treasury Management activity and updates the Treasury Management Strategy. The Council's investments have so far outperformed the Bank of England Base rate for the year to date, making an average return of 4.76%. Long-term borrowing has been taken at an average rate of 4.47%, reducing the overall average rate of interest on accumulated debt paid by the Council from 5.34% to 5.18%.
 - The approval of delegated authority to the Director of Finance for the potential undertaking of a forward commitment to borrow from the money market from April 2006, should the market conditions change in a beneficial direction.
 - An amendment to the Normanton Park capital scheme following an increase in the amount of external funding being awarded to the scheme. The value of the scheme will increase from £328k to £480k and will now incorporate work to the Normanton Garage store rooms rather than the Normanton Park activity centre.
 - A transfer from the Market Hall roof repair corporate capital scheme 2005/6 to a new scheme for urgent boiler replacements.
- 1.2 Subject to any issues raised at the meeting, I support the following recommendations.

RECOMMENDATION

- 2.1 To approve the submission of an application to DEFRA for an increase in funding of £931k to £2.106m of funding
- 2.2 To note the change to the capital programme to take account of the revised costs and funding, subject to DEFRA approval, and approve scheme commencement for the flood defence scheme

- 2.3 To delegate to the Director of Development and Cultural Services authority to award a tender for the works, subject to formal approval from DEFRA and the tender cost being within approved capital budget limits
- 2.4 To approve the appointment of Comensura to manage the contract for the supply of temporary staff to the Council to start in November 2005 for a three year period with an option to extend to five years.
- 2.5 To agree that departmental budget proposals for 2006/7 onwards should in principle incorporate estimated net savings arising from these proposals, likely to be in the range of £25k to £50k overall, rising to £100k in 2007/8, as a contribution towards departmental savings targets, subject to savings being confirmed in the corporate budget process.
- 2.6 To approve the report in respect of Treasury Management activity and performance for 2005/06 to date as outlined in Appendix 2.
- 2.7 To extend the Treasury Management Strategy for 2005/6 to authorise the Director of Finance to undertake during 2005/6, the forward borrowing of external funds from the money market at favourable interest rates to take effect from April 2006, on the condition that the capital financing requirement for 2006/7 is not exceeded and that the Director of Finance considers market conditions to be beneficial.
- 2.8 Approval is sought to amend the scheme on the 2005/6 Capital Programme relating to building works at Normanton Park Pavilion and Normanton Activity Centre to £480,000 and increase external funding to £450k.
- 2.9 To approve a transfer of £167k from the Market Hall roof repairs corporate capital scheme 2005/6 to a new scheme to replace boilers and control equipment, together with capital scheme commencement.

**Contract and Financial Procedure Matters Report****SUPPORTING INFORMATION****1. Markeaton Catchment Action Management Plan – Phase 1 flood defence scheme**

- 1.1 This scheme is included in the D&CS capital programme, approved by Council on 2 March 2005 as follows:

	Current Programme £000's	Revised Programme £000's
Total scheme costs	1,311	2,242
Funding Source		
DEFRA	1,175	2,106
Corporate funding	136	136
	<u>1,311</u>	<u>2,242</u>

- 1.2 Design alterations to meet health & safety requirements and a re-appraisal based on additional ground survey information have resulted in the scheme costs rising from £1.31m to £2.24m. The main reasons for this increase are:
- demolition works and tying in of the new structures at Darley Park
 - construction of an access road and temporary car park at Markeaton Park to provide a safe thoroughfare for visitors around the Mundy Play Centre
 - additional structural metal work to provide safer and easier access to the new spillways for maintenance purposes
 - load bearing ground piles have been incorporated into the revised design due to poor ground bearing capacity following a full ground investigation.
- 1.3 Additional funding of £931k is being sought from DEFRA to increase funding to £2.106m. This will keep the corporate funding at £136k for the remaining costs that are not eligible for DEFRA funding is already included in the 2005/06 and 2006/07 approved budget

2. Management of supply of temporary staff

- 2.1 Following a review of the Council's use of temporary staff, a tender process to appoint a company to manage the supply of temporary staff on a neutral vendor basis was started in January 2005.
- 2.2 The purpose of doing this was to achieve direct cost savings to our £2 million annual spend on temporary staff, indirect savings by efficiencies in the ordering and invoicing process and saving time for managers and finally to achieve better quality and consistency in the temporary staff used.
- 2.3 The tender was advertised in January 2005 and closed at the beginning of March 2005. 23 tenders were received and these were reviewed on the basis of:
 - recruitment and operational practices
 - pricing
 - general experience of this type of contract
 - experience of working with local government
 - experience of providing social care.
- 2.4 Six companies including Comensura were short-listed to present to a panel of officers representing both corporate and departmental perspectives in relation to systems, personnel, finance, procurement and management:
- 2.5 The services each company could provide were evaluated requirements for appropriate recruitment and equal opportunities practices, effective systems, experience of managing contracts to provide all categories of staff and the ability to create cost savings for the Council.
- 2.6 Following the presentations, references were sought from five local authorities that have contracts with Comensura. They were all highly satisfactory. Based on a weighted average score taking into account the presentations and financial evaluation Comensura's bid scored highest.
- 2.7 The unanimous decision of the panel was to recommend the appointment of Comensura as they satisfied the requirements of all areas and there were weaknesses with all of the other companies in at least one of the areas, such as lack of an appropriate system, too expensive or lack of experience in provision of social care.
- 2.8 Comensura's bid was structured around a savings share mechanism with no up front management charge for use of their system or service. Comensura can also offer a management fee option rather than taking a share of savings generated through the contract. This will need to be considered in more detail during the implementation phase to ensure the most financially advantageous mechanism for the Council is selected.
- 2.9 Further cashable savings could be achieved in the future through the use of consolidated electronic billing. Once fully implemented, this will significantly reduce the amount of processing and number of transactions to approve and pay for invoices compared to current arrangements.

- 2.10 It is estimated initial cashable savings of a minimum of £100k per annum could be achieved after allowing for Comensura's share of savings. The implementation will however be phased over a period of time by introducing individual skill sets in progression. Therefore, the generation of savings would build up over time and further increase following the introduction of consolidated electronic billing. It would be reasonable to expect a proportionate level of savings in 2006/7, perhaps in the region of £25-£50k. The estimated likely savings per department will be confirmed as part of the corporate budget process.

3. Treasury Management Progress Report and Strategy Update for 2005/06

- 3.1 The Treasury Management Progress Report and Strategy Update for 2005/06 at Appendix 2, summarises the approved strategy and the activity for the year to date. Additionally, Appendix 2 provides detail behind the recommendation to extend the Treasury Management Strategy, to authorise the Director of Finance to undertake during 2005/06, the borrowing of external funds from the money market at favourable interest rates to take effect from April 2006.
- 3.2 Members' attention is drawn specifically to investment activity during 2005/06. Returns on investments have out performed the average Bank of England Base rates, and also the published benchmark rates for periods of 7 days through to 12 months.
- 3.3 Those prudential indicators,, which relate specifically to treasury management, are referred to in Appendix 2, the Treasury Management Progress and Strategy Update Report for 2005/06.

4 Normanton Park Pavillion capital scheme

- 4.1 This scheme was approved by Council Cabinet on 27 September 2005. The original external funding allocation has increased to take the value of the scheme from £328k to £480k and it is proposed to now develop Normanton Park Garage Store Rooms rather than Normanton Activity Centre. This is because the Garage Store Rooms will provide a larger space and allow for additional community activities to take place.
- 4.2 The additional works to the capital scheme is as a result of securing additional external funding. Normanton Park Pavilion and Garage Store Rooms are in poor condition and have attracted vandalism. The additional external funding now allows for a total refurbishment of the two buildings.
- 4.3 Table 1 below provides a comparison between the revised works following the award of additional external funding compared with the original works and funding:

Description of works	Original scheme £'000	Revised scheme £'000
Normanton Park Pavilion		
Roofing and external works	66	66
Kitchen refurbishment, ventilation & kitting out	12	42
Other internal works to toilets, rooms, windows etc	23	23
Other external works to protective grilles, clock tower etc	6	6
Asbestos testing & removal	20	20
Electrical & gas works	27	27
Capital contingencies	10	6
Total	164	190

Description of works	Original scheme £'000	Revised scheme £'000
Normanton Garage Store Rooms		
Roof		55
Walls, doors, windows, floors, plumbing, damp proof		94
Minor alterations, plastering, decoration		30
Disabled ramp and signage		2
Asbestos testing and removal (provisional)		20
Heating system		25
Electrical work		28
Foundations work to underpin back wall		10
Upgrade toilet facilities		10
Architects fees		6
Contingencies		10
Total		290
Original cost for developing Normanton Park Activity Centre	164	0
Overall total	328	480

Funding for the scheme is from:

Funding body	Original scheme £'000	Revised scheme £'000
External funding (SRB and URBAN)	298	450
Revenue	30	30
Total	328	480

- 4.4 The external funding was approved on October 7 2005 and is time limited.
Expenditure on the scheme has to be completed by the end of November 2005.

5. Corporate Capital Programme 2005/6 change

- 5.1 The 2005/6 approved corporate capital programme included £167k to replace the copper sheeting to the domed Market Hall roof. Due to increased costs and service impact of implementing this scheme in a safe manner, it is proposed to defer this scheme and reconsider as part of 2006/7 priorities.
- 5.2 Cabinet is asked to approve the transfer of the capital budget to a new scheme to fund the replacement of boilers and other control equipment at 20 council buildings, as detailed in appendix 3. The existing equipment has either already been or is close to being shutdown for safety reasons. This is urgent work as it could result in buildings from which services are run becoming unoperational. The revenue maintenance budget is already fully committed to other unavoidable repair and maintenance work.
- 5.3 If the transfer is approved, capital scheme commencement approval is also requested.

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Background papers:	Procurement Report -Management of Supply of Temporary Labour Tender
List of appendices:	Appendix 1 – Implications Appendix 2 – Treasury management progress report and strategy update Appendix 3 – Boiler and control equipment replacement schedule

IMPLICATIONS

Financial

1. As set out in this report.

Legal

2. None

Personnel

3. The supply of temporary staff contract will provide a process for supplying agency temporary staff to departments to make sure that vacancies and workload requirements are adequately and effectively covered. None

Equalities impact

4. All equalities information about temporary staff will be recorded and monitored as part of the vendor agreements and supplied as part of the Council's management information.

Corporate objectives and priorities for change

5. The recommendations are consistent with the Council's corporate objectives and priorities.

TREASURY MANAGEMENT PROGRESS REPORT 2005/06

Introduction

Definition

Treasury Management involves the management of the authority's cash flows, its banking, money market and capital market transactions as well as the effective control of the associated risk and the pursuit of optimum performance consistent with those risks. It involves decisions on long and short-term borrowing and lending requirements of the Council.

These functions are carried out within a framework set by legislation, and CIPFA's Code of Practice for Treasury Management in Local Authorities. The main legislation is the Prudential Code for Capital Finance: Local Authorities, set under the Local Government Act 2003.

The Code sets out minimum reporting requirements, which are an annual strategy report and an annual performance report. Although no longer a requirement of this policy, it is considered to be good practice to review Treasury Management progress against the Treasury Management Strategy in the course of the year.

The purpose of this report is to:

- Report on the progress for the first six months
- Update the decision making framework set out with the strategy to keep pace with market developments and opportunities.
- Consider the impact of changes on the Council's approved indicators set under the Prudential Code.

Borrowing

Borrowing Strategy

The strategy for 2005/2006 was approved by Cabinet on 22 February 2005. It which laid out and took account of the latest regulatory framework, existing borrowing structure, potential borrowing requirement for the year, sources of new borrowing and external factors influencing borrowing decisions., for example interest rate movement.

The strategy for 2005/06 identified a net funding requirement of £34.42m, £9.5m of which had been borrowed during 2004/05 as approved by Cabinet, resulting in a borrowing requirement for the year of £24.92m.

As a result of changes to the capital programme 2004/05 outturn, the revised, potential borrowing requirement for the current year is now forecast at £28.12m. The effect on the prudential indicators will be considered later in this report.

Sources of Borrowing and Factors influencing borrowing decisions

The authority can meet its financing requirement by a combination of borrowing from external sources and/or use of funds generated internally.

If the authority chooses to borrow externally, it can use either the money market or the Public Works Loans Board (PWLB).

Funds created internally have only one primary source. This is the amount the authority must set aside from the revenue account to meet debt repayments, known as the minimum revenue provision, MRP.

Factors influencing borrowing decisions

The Council's treasury management advisers produced their economic outlook and interest rate forecasts for 2005/06 and beyond in early 2005.

Advice from our advisers at that time was that long dated PWLB debt and some variable rate debt offered the best value for borrowing, and that commitment to medium dated debt should be avoided. PWLB rates were expected to rise slightly during 2005/06, but to drop back to current levels towards the end of the financial year. Any substantive reliance on variable debt should also be avoided as it would leave the Council exposed to market fluctuations, and does not, therefore, minimise risk.

The Strategy for 2005/06 considered that with the exception of LOBO loans, where the Council can limit the extent of variability, variable debt would be avoided. However, the possibility of taking forward LOBO loans with effect from April 2006 is discussed in Appendix 2. There is also a need to achieve a debt maturity profile that reduces exposure to market changes in any one year. No more than 15% of the debt portfolio should mature in any one year.

The Strategy determined considered it appropriate that the Council should continue with its approach of taking mostly long dated fixed rate debt, where borrowing is necessary, with the current preference for long over medium and short dated loans being subject to review if market conditions change.

The Strategy also approved the potential use of the rescheduling of further long-term loans in 2005/06, which may be running at disadvantageous interest rates, or where savings can be made to reduce the debt charge costs to the authority.

Long Term Borrowing Activity to date

So far in 2005/06, To date a total of £28m PWLB money has been borrowed in order to finance current year 2005/06 capital expenditure and PWLB principal repayments (£112k). in the current year. This contained no variable rate debt. Market conditions and the careful planning of loans have enabled the authority to borrow at an average of 4.4732%, against a budgeted rate of 5%, for an average period of 26.143 years. All the loans have been taken at the 'current lowest point' of the year to date and with a view to our adviser's opinion that rates were set to rise slightly during 2005/06 but then drop back to February 2005 levels

towards the end of the financial year. Unless there is an increase in unsupported borrowing within the capital programme for 2005/06 no further borrowing will be undertaken in 2005/06. The situation is continually being monitored to assess the possibility of borrowing in advance for 2006/07.

Long Term Debt Profile

The total debt outstanding at 1 April 2005 was £285.59 million. This was made up of £262.89 million PWLB loans and £22.7 million LOBO (money market) loans. Including the £28 million new PWLB loans and repaid annuity PWLB loans principal to date, the maturity profile of external debt at 1 October 2005 is now as follows:

Maturity within	PWLB £m	Average rate %	Market Loans*** £m	Average rate %
1 year	0.1	3.134	22.7	4.45
1-2 years	8.1	9.311		
2-3 years	4.1	4.655		
3-4 years	3.1	9.269		
4-5 years	10.1	9.560		
5-6 years	3.1	8.831		
6-10 years	12.5	5.567		
10-15 years	7.5	4.874		
15+ years	242.3	4.850		
	290.9	5.183	22.7	4.45
1 April 2005	262.9	5.339	22.7	0.75

*** Assumed that the LOBO loans will be repaid at the next 'option' date – 12 June 2006

The average rate to date on PWLB borrowing in 2005/2006 has reduced from 5.339% at the beginning of the financial year to 5.183%. The equivalent rate at 1 April 2004 was 5.511%.

Contrary to the expectations of our treasury management advisers, PWLB rates fell from April onwards before rising marginally in October. Given the change in anticipated conditions, borrowing has been undertaken in the first half of 2005/06.

Rates	1 Apr 05	1 May 05	1 June 05	1 Aug 05	1 Sep 05	18 Oct 05
	%	%	%	%	%	%
Base rate	4.75	4.75	4.75	4.50	4.50	4.50
PWLB 3 years	4.80	4.65	4.35	4.30	4.20	4.45
PWLB 7-8 years	4.85	4.65	4.40	4.45	4.21	4.45
PWLB 20 - 25 years	4.80	4.65	4.50	4.50	4.35	4.55
PWLB 25 – 30 years	4.75	4.60	4.45	4.45	4.31	4.55

The Timing and rates of borrowing to date has been as follows:

£5m was borrowed towards the end of April 2005, at 4.65%

£5m in early May at a rate of 4.60%

£10m in mid May at 4.45%

£2m in mid June at 4.35%

£5m at the end of June at 4.30%

£1m in early September at 4.30%.

Interest Rates

The following table provides a snapshot of interest rates available on long term borrowing for this financial year to date:

Rates	Apr 05	May 05	June 05	Aug 05	Current 1 Oct 2005
	%	%	%	%	%
Base rate	4.750	4.750	4.750	4.500	4.500
PWLB 3 years	4.800	4.650	4.350	4.300	4.350
PWLB 7-8 years	4.850	4.650	4.400	4.450	4.400
PWLB 20 - 25 years	4.800	4.650	4.500	4.500	4.450
PWLB 25 – 30 years	4.750	4.600	4.450	4.450	4.400

The current Long term PWLB rates is are currently between 4.50% and 4.55% for medium to long dated loans, above the average rate of 4.47% achieved on borrowing in the year to date.

Potential Forward Borrowing

The Council have largely exhausted its capacity to undertake substantial further PWLB borrowing in 2005/06. Any further borrowing would be in anticipation of 2006/07 capital spending but investment balances currently exceed £100m and would grow further were further substantial borrowing be undertaken.

Should the market return to its early September levels, it may be advantageous to make a forward commitment to the rate at which borrowing will be undertaken in 2006/07, whilst deferring such borrowing until April 2006. A market loan would be needed to do this. In these conditions, a LOBO loan would be likely to offer a fixed rate of 4.0% for 5 or 10 years, with the lender having the option of increasing the rate subsequently above 4.0% if the Council wished to continue the loan beyond that.

1Such a course of action would enable the Council to save approximately £30k per year for every £5m borrowed over 5 years when compared to current PWLB rates and in excess of this when compared to forecast rates. A reasonably high degree of certainty for financial planning purposes would also be maintained as a result of the initial fixed rate.

Cabinet is, therefore, asked to authorise the Director of Finance to undertake forward borrowing in respect of 2006/07 with an upper limit of £15m, should market conditions be considered favourable. There is no firm commitment sought to this course, but such authorisation would enable a swift response to take advantage of market conditions were they to change.

Other Borrowing Activity

There has been no temporary borrowing during this financial year to date and it is not intended, at this time, for any temporary borrowing to be taken during the rest of the year. Some restructuring of existing loans may be undertaken, consistent with the existing strategy.

Investments

The Council's ability to secure a good rate of return has depended on its ability to act flexibly when market conditions suggest a particular investment is good value. The general strategy is therefore to take either short or long dated investments that outperform market expectations, informed by the view of our treasury advisers.

All activity has been conducted within the current limits for investment set as part of the Prudential Code indicators, and no changes are sought.

The following investment activity had taken place as at 1 October 2005.

Total number of investments	150
Value of investment held at:	
1 April 2005	£83.791m
1 October 2005	£108.335m
Average value of investments April – Sep 2004	£113.905m
Total interest earned on investments	£2.710m
Average return on portfolio	4.758%
Weighted average Base Rate (2005/06 to date)	4.673%

The interest earned to 1 October 2005 represents a return of 4.758%, which is 0.085% more than the weighted average Base rate, which has reduced from 4.75% to 4.50% to date⁹. The average rate achieved to date has out performed all the published average LIBID rates from 7 day through to 12 months. This higher rate of return is as a result of prudent 364 day investments being made at the latter end of 2004/05, 'forward' investments negotiated at the end of 2003/04 and the beginning of 2004/05 which have now come 'on stream'.

Short-term cash available for investment has fluctuated between £81m and £129m so far during 2005/06 and averaged £114m. It has been invested only with institutions on the Council's approved list with restrictions on overall amounts for particular institutions and sectors.

Prudential Indicators

The changes in the borrowing requirement, as shown earlier in this report, have an effect on prudential indicators 53 and 54 in respect of the Capital Financing Requirement (CFR). However, it is considered the changes do not have any material effect on the CFR. These indicators will be reviewed early in 2006, along with all other prudential indicators, Capital Monitoring and the Treasury Management Strategy 2006/07 and will be reported to Cabinet as part of that report.

Urgent boiler and control equipment replacement programme

Site	Need	Budget
Cheaspeake Family Centre	Boiler replacement	£8,000
Rykneld community centre	Boiler replacement	£6,000
Bramblebrook community centre	Boiler replacement	£6,000
Cotton Lane community centre	Boiler replacement	£6,000
Nunsfield House	Boiler replacement	£9,000
St Augustine's community centre	Boiler replacement	£8,000
Mackworth community centre	Boiler replacement	£5,500
Mickleover community centre	Boiler replacement	£6,000
The Mount / Albany Road	Boiler replacement	£5,000
Whitaker Road day centre	Boiler replacement	£8,000
Marlborough Road day centre	Boiler replacement	£6,000
Pickford House museum	Boiler replacement	£8,000
Kedholme Lane Community centre	Boiler replacement	£6,000
Warwick House	Nurse call system	£15,000
Museum and Art Gallery plus Central Library	Control system	£35,000
11 Arthur Court	Boiler replacement	£3,000
55 Coronation Av	Boiler replacement	£8,000
Stanley Road	Boiler replacement	£5,000
Coach House	Boiler replacement	£3,000
Bromley House	Boiler replacement	£5,000
Add contingency		£5,500
Total		£167,000

Note: Costs include fees but exclude any asbestos implications.