

## APPENDIX B - WORMWOOD SCRUBS CHARITABLE TRUST TRUSTEES REPORT

### ▪ Reference and Administrative details

<b><u>Charity Name and Number</u></b>	Wormwood Scrubs Charitable Trust, Registration No. 1033705
<b><u>Charity Correspondent</u></b>	MARK JONES AD FINANCE & RESOURCES RESIDENTS SERVICES DEPARTMENT FIRST FLOOR 77 GLENTHORNE ROAD LONDON W6 0LJ
<b><u>Trustees</u></b>	The Council of the London Borough of Hammersmith & Fulham
<b><u>Telephone</u></b>	020 8753 6700
<b><u>Email Address</u></b>	<a href="mailto:mark.jones@lbhf.gov.uk">mark.jones@lbhf.gov.uk</a>
<b><u>Governing Document</u></b>	WORMWOOD SCRUBS ACT 1879 AS AMENDED BY SCHEME OF THE CHARITY COMMISSIONERS DATED 25 MARCH 2002.
<b><u>Objects</u></b>	FOR RECREATIONAL USE AS SET OUT IN THE WORMWOOD SCRUBS ACT 1879.
<b><u>Area of Benefit</u></b>	WORMWOOD SCRUBS AND WEST LONDON. (Area prescribed by Governing Document)
<b><u>Area of Operation</u></b>	GREATER LONDON-HAMMERSMITH AND FULHAM-FULHAM
<b><u>Registration History</u></b>	23 Feb 1994 Registered
<b><u>Auditor Details</u></b>	Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

TRUSTEE'S REPORT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2011

**Structure, Governance and Management**

The Wormwood Scrubs Charitable Trust shares similar governance arrangements with the Council. Depending upon the scale of the proposal, decisions relating to the trust will be taken either by Council or the Cabinet, an executive body set up to which operational decisions are delegated. Decisions under £50,000 are delegated to the Cabinet Member for Residents Services, Cllr. Greg Smith.

The Audit Committee is the specific body that the Council has established to receive the annual reports of the trust.

Day to day running of the trust is undertaken by officers in line with the Council's scheme of delegation. The *de facto* chief executive of the trust, is the Council's Chief Executive, Mr. Derek Myers. Ms. Lyn Carpenter (Director of Residents Services) and Ms. Sue Harris (Assistant Director, Cleaner, Greener & Cultural Services) are the main officers responsible for the day to day running.

Ms Jane West, the Council's Director of Finance is the trust's Chief Finance Officer but day to day financial management of the trust is undertaken by Mr. Mark Jones (Assistant Director of Finance and Resources, Residents Services).

**Risk Management**

The trustees have a risk management strategy which comprises:

- An annual review of the risks the charity may face;
- Establishment of plans to mitigate those risks identified;
- Implementation of steps designed to minimise any potential impact on the charity should those risks materialise.

The work has identified only a few minor risks and the situation is being monitored (Appendix B).

A key element in the management of risk is the setting of a reserves policy and its regular review by trustees.

**Objectives and Activities**

Wormwood Scrubs is the subject of a charitable trust created by the Wormwood Scrubs Act 1879. The Council of the London Borough of Hammersmith & Fulham is the sole corporate trustee and holds the land in trust for the "use by the inhabitants of the metropolis for exercise and recreation". This is the Trust's sole objective.

In discharging this objective, the trust seeks to encourage sporting and recreational use of Wormwood Scrubs through the provision and maintenance of an environment that is conducive to its objective.

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The Linford Christie stadium is sited on Wormwood Scrubs and was built by the Greater London Council when that body was responsible for the scrubs. The stadium is run by the Council and the trust makes an annual contribution to its running costs.

In addition to supporting the recreational activities provided by the Council through the Linford Christie stadium, the trust's main activity relates to the maintenance of the scrubs itself. Since 6<sup>th</sup> May 2008 Quadron Services Ltd has provided a grounds maintenance service at Wormwood Scrubs following a procurement exercise run by the Council.

### **Achievements and Performance**

In 2010-11 the Trust maintained day to day operation of the scrubs.

On the 3<sup>rd</sup> December 2007, the Cabinet of the London Borough of Hammersmith and Fulham approved the award of a contract on behalf of the Council and the Wormwood Scrubs Charitable Trust for grounds maintenance to Quadron Services Ltd for a period of seven years with an option to extend for a further seven years. The contract commenced on 7<sup>th</sup> May 2008.

### **Financial Review**

<b>Summary of Financial position</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2008/09</b>
Total Incoming Resources	654,208	735,258	750,588
Total Resources Expended	-673,004	-785,445	-699,602
<b>Net Incoming Resources</b>	<b>-18,796</b>	<b>-50,186</b>	<b>50,986</b>
<b>Total funds brought forward</b>	<b>5,698,247</b>	<b>5,748,433</b>	<b>5,697,447</b>
<b>Total funds carried forward</b>	<b>5,679,451</b>	<b>5,698,247</b>	<b>5,748,433</b>

The main income sources are pay and display income from the 5 machines in Wormwood Scrubs Car Park and licence income for the use of the car park. Expenditure is deemed to be in line with the objectives of the Trust.

The Trust's policy is to consider the level of its Balance annually;

- Whether the Trust has approved a balanced budget,
- The robustness of the assumptions and calculations that have underpinned the budget strategy,
- The frequency and effectiveness of in year budget monitoring,
- The effectiveness of Risk Management,
- The affordability of its commitments in respect of grounds maintenance and support of the Linford Christie Stadium,
- The review of, and the opinion of, the Trust's financial standing by the External Auditor,
- The condition of the Trust's assets,
- The affordability considerations of prudential borrowing

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Currently, the Fund's Reserves are in the region of 104% of the turnover of the trust, which is considered prudent given the factors identified above.

Determining an adequate level of Balance requires professional judgement in the context of assessing performance against the key criteria listed above. Consequently, it is considered inappropriate to stipulate either a minimum or a maximum level of Trust Balance. It is considered more important that the key criteria are reviewed annually at the time of preparing the annual Revenue Budget and reviewing the previous year's performance.

The trust's investments are managed by the Council. Please see appendix A for an extract from the **Council's Treasury Management Strategy Report** governing the investment policy adopted, adopted by the Council in February 2011.

### Plans for future periods

There are a number of issues which are being considered.

During the lead up to the London 2012 Olympics and Paralympics the Linford Christie Outdoor Sports Centre (LCOSC) is potentially hosting a number of new sporting events, tournaments and activities. This in part is an overflow facility as competing countries establish themselves at various stadiums around the South East, resulting in annual events and tournaments seeking to relocate to alternative suitable venues. There continues to be scope for the stadium to act as a preparation camp for smaller teams involved in athletics, football and hockey. Most countries are looking for multi-sports venues where their team can train together for security and logistic reasons. However there is a role for smaller centres like the LCOSC in providing training facilities for teams from less affluent countries. The LCOSC has been included in a consortium of West London boroughs who are marketing their facilities jointly.

Investment into the facility continues and has had a significant impact on user experience. The most recent project involved an £87k upgrade to the lighting of the changing facilities and internal communal areas. During December 2011 work to repair the fencing of the all weather pitch is due to take place at a total cost of £24k (approached on a phased basis). During early 2012 work will commence on a project utilising £160k of section 106 money that will include extensive repair of the changing block roof, a sanitary ware replacement programme and repair/replacement of doors and shutters.

Future projects in the pipeline include the potential restoration of the covered running track. Appropriate funding opportunities are currently being identified and the project is being considered in partnership with Thames Valley Harriers.

The car park has a maintenance regime identifying minor repairs that have safety implications. A full survey was carried out in 2004 identifying the need for more extensive work to be carried out in the medium term. This requirement is being kept under review but there are no immediate plans to commission the works.

The artillery wall was noted in 2009 as being in need of repair. The Council had identified a contractor to demolish the wall at zero cost but subsequent investigations found that part of the wall is listed so demolition is no longer an option. The deterioration of the wall will continue to be monitored.

**Trustees' responsibilities in relation to financial statements**

Charity law requires the trustees to prepare financial statements for each year which show a true and fair view of the state of affairs of the charity and its financial activities for the period. In preparing the financial statements, the trustees are required to:

- Select suitable accounting policies and apply them consistently.
- Make sound judgements and estimates them are reasonable and prudent.
- Prepare financial statements on the going concern basis unless it is not appropriate to assume that the charity will continue in operational existence.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position and to enable them to ensure that the financial statements comply with the Charities Act 1993. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

The trustees have appointed the Audit Commission to undertake the audit of accounts in the following year.

**For and on Behalf of Wormwood Scrubs Charitable Trust**

**Signed**

**Name**

**Date**

**Appendix A – Investment Strategy**

Extract from Council's Treasury Strategy Management Report February 2011

**8. Annual Investment Strategy**

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

Although the annual investment strategy has to be approved by full Council, it is proposed that amendments to the investment methodology are delegated to Cabinet to enable changes to be made on a timely basis to reflect changes in market conditions.

- 8.2 The Council's investments priorities are:-

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

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

- 8.3 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.
- 8.4 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Counterparty limits will be as set by Council.
- 8.5 The Council in conjunction with its treasury advisor Sector, will use Fitch, Moody's and Standard and Poor ratings plus data on movements in credit default swap to derive its credit criteria. Credit ratings alerts and changes are notified to treasury officers on a daily basis and these are acted upon immediately. In addition officers monitor the financial press and economic reports. 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.
  - In addition to the use of Credit Rating the Council will be advised of information in movements in Credit Default Swaps (CDSs) 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. It should be noted that the Council is only monitoring CDS movements for information purposes, and is not actually purchasing any CDSs.

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- 8.6 The DCLG guidance requires authorities to specify their minimum acceptable credit rating. The minimum ratings required by the Council are:

Fitch Long Term	Short Term	Individual	Support
A-	F2	C	2

Moody's Long Term	Short Term	Financial Strength
A3	P-2	C

S & P Long Term	Short Term
A-	A-3

- 8.7 Country Limits

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) see Appendix B. This list will be added to, or reduced, by officers should ratings change in accordance with this policy.

### 9. Interest rate outlook for investments

- 9.1 Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 3 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows:-

2010/11	0.50%
2011/12	1.00%
2012/13	2.25%
2013/14	3.25%

- 9.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.
- 9.3 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally 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.
- 9.4 For its cash flow generated balances, the Council will utilise its business reserve accounts, money market funds and short dates deposits (overnight to three months) in order to benefit from the compounding of interest.

The Council will report on its investment activity as part of a mid year review and at the end of the financial year as part of the Annual Outturn Report.

## 9.5 Specified Investments

A specified investment is defined in the guidance as an investment which satisfies the conditions set out below:

- (a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- (b) The investment is not a long-term investment (ie over 364 days)
- (c) The investment does not involve the acquisition of share capital or loan capital in any body corporate

Types of specified investments include and may be used by the Council are:

Term deposit – UK government  
Term deposits – other Local Authorities  
Term deposits – banks and building societies  
Money market funds  
Callable deposits – under 1 year  
Certificates of deposits - issued by banks and building societies.  
UK Government Gilts  
Treasury Bills

## 9.6 Non-Specified Investments

The Council has made no investments in non-specified investments to date. These are any investments not meeting the definition in para 9.5 above.

9.7 However if there was a core cash balance available after taking into account the cash flow requirements and the outlook for short-term interest rates then the following non-specified investments could be used after consultation with our Treasury Advisor.

- Term deposits with banks with maturities in excess of one year.
- Term deposits with building societies with maturities in excess of one year
- Term deposits with Local Authorities with maturities in excess of one year.
- Structured deposits.
- Bond Funds with AAA rating credit criteria
- Callable deposits in excess of one year
- Certificates of deposits - issued by banks and building societies in excess of one year.
- UK Government Gilts in excess of one year



## 10. Credit Criteria

- 10.1 Each week the Treasury Section receives an up to date list of the credit rating for individual counterparties from our treasury advisors. In addition to this if any changes in the credit rating of individual counterparties or in banking structures e.g. on mergers or takeovers occur during the month Sector e-mail the amendments to the Treasury Section on a daily basis and the section adds/deletes counterparties as appropriate to/from the approved counterparty list.
- 10.2 The banking sector is still a volatile area and the current policy is that whilst we maintain our full lending list in accordance with the methodology in approved by Council on the 24<sup>th</sup> February 2010 we have been operating a more **restricted lending list**, lending only to UK banks, other Local Authorities and AAA Money Market Funds. For illustrative purposes Appendix B is attached to show the countries and organisations on the lending list at the present time using the approved methodology.
- 10.3 However, it is part of the Treasury Management Code of Practise that the Council needs a sound diversification policy with high credit quality counterparties. Such a policy is needed to prevent overreliance on a small number of counterparties and should also consider country, sector and group limits. In addition, there is a possibility that within the next 12 months the government will lower its support to RBS, Lloyds Bank and NatWest and therefore they will no longer have the creditworthiness of the government itself. The effect of this means the credit rating of these banks will be lower as the rating agencies will rate these banks without the government guarantee, this in turn means the Council will have to reduce the amount and duration the Council can lend to these banks. It is therefore proposed that we expand our current restricted list and diversify our lending portfolio now to other highly credit rated banks within highly credit rated countries. This will enable the Council to spread its credit risk but still maintain a low risk investment strategy.
- 10.4 Below is the proposed list of banking institutions which it is recommended the Council now adds to its **restricted lending list** use as well as the UK banking institutions, the AAA Money Market Funds and other Local Authorities. All of which are on our current lending list maintained in accordance with the agreed methodology approved by Council on 24 February 2010 for convenience it is shown as Appendix C.
- 10.5 Added to this the Nat West Call Account that we presently use will be affected by the new FSA liquidity rules and it is likely that call account deposits with instant access will pay a much lower rate of interest, possibly below base rate, this will further reduce the Council's investment options.

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10.6 The limits are driven by the methodology which is shown in full in Appendix C the maximum limits for these banks are shown in the table below. The limits can change if there are rating changes, however the maximum limit would never be more than £25 Million.

	Fitch	Moody's	S&P	Max Limit
<b>Australia</b>	<b>AA+</b>	<b>Aaa</b>	<b>AAA</b>	<b>£'000</b>
Australia & New Zealand Bank	AA-, F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Commonwealth Bank of Australia	AA, F1+, A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
National Bank of Australia	AA, F1+, B, 1	Aa1, P-1, B	AA, A-1+	25,000
Westpac Bank Corporation	AA, F1+, A/B, 1	Aa1, P-1, B	AA, A-1+	25,000
<b>Canada</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>	
Bank of Montreal	AA-, F1+, B, 1	Aa2, P-1, B-	A+, A-1,	20,000
Bank of Nova Scotia	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
National Bank of Canada	A+, F1, B, 2	Aa2, P-1, B-	A, A-1	20,000
Toronto Dominion Bank	AA-, F1+, B, 1	Aaa, P-1, B+	AA-, A-1+	25,000
<b>France</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>	
Societe Generale	A+, F1+, B/C, 1	Aa2, P-1, C+	A+, A-1	20,000
<b>Germany</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>	
Deutsche Bank	AA-, F1+, B/C, 1	Aa3, P-1, C+	A+, A-1	20,000
<b>Singapore</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>	
DBS Ltd	AA-, F1+, B, 1	Aa1, P-1, B	AA-, A-1+	25,000
Overseas Chinese Banking Corporation	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000
United Overseas Bank Ltd	AA-, F1+, B, 1	Aa1, P-1, B	A+, A-1	25,000

## 11. Nationalised Banks and Part Nationalised Banks

In the UK, the nationalised and part-nationalised banks have credit ratings which do not conform to the credit criteria usually used to identify banks which are of high credit worthiness, as they are no longer separate institutions in their own right. However, the Council has agreed to invest in these institutions as they are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

## 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

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Borrowing 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. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a lean towards longer dated PWLB.

12.3 The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings
- Help fulfil the strategy outlined in paragraph 8 above; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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▪ **Appendix B – Risk Assessment**

<b>Risk Index No.</b>	<b>AREA OF RISK</b>	<b>IMPACT OF RISK</b>	<b>SEVERITY High/Medium/Low</b>	<b>POTENTIAL High/medium /Low</b>	<b>VALUATION</b>	<b>COMMENT</b>
001	Pay and Display income level	i) Theft of cash boxes. ii) Lower income levels due to decisions taken about Pay and Display tariffs.	Medium	Medium	Potential loss of income.	No immediate impact expected.
002	Hammersmith Hospital Trust car park income	The licensing agreement with Hammersmith Hospital Trust has a three month notice period with a possible impact on the level of income.	High	Medium	Potential loss of income.	Contract to be reviewed in 2011/12
003	Condition – Wormwood Scrubs car park	Wormwood Scrubs car park is in need of resurfacing. A review of the car park is planned for 2012.	High	Low	Significant expenditure.	The risk should be manageable. In the year of resurfacing works funds will be managed accordingly.
004	Insurance claims against Trust	Liability of trust in case of personal injury claims.	Low	Low	Possible liability of Trust in case of insurance claim.	Wormwood Scrubs would be covered by the Council's insurance.
005	Safety of Artillery Wall	Cost of demolition, collapse could possibly lead to damage or liability of Trust.	Low	High	Cost of demolition or insurance claims.	The condition of the wall is being monitored.