Sevenoaks
DISTRICT COUNCIL
Despatched: 28.12.12

PERFORMANCE AND GOVERNANCE COMMITTEE

08 January 2013 at 7.00 pm
Conference Room - Council Offices, Argyle Road

AGENDA

Membership:

Chairman: Cllr. Fittock   Vice-Chairman: Cllr. Walshe

Cllrs. Mrs. Bayley, Clark, Mrs. Cook, Davison, Dickins, Firth, Gaywood, Grint, London, McGarvey and Piper and one vacancy

		Pages	Contact
Apologies for Absence.			
1.	**Minutes** Minutes of the meeting of the Committee held on 13 November 2012.	(Pages 1 - 6)	
2.	**Declarations of interest** Any interests not already registered		
3.	**Grant Thornton Update**	(Pages 7 - 34)	Adrian Rowbotham Tel: 01732 227153
4.	**Formal Response or Consultation Requests from the Cabinet and/or Select Committees following matters referred by the Committee:** a) 2013/14 Budget and Review of Service Plans (Response from Cabinet 6 December 2012) b) Property Review – Cobden Road Centre, Cobden Road, Sevenoaks (Response from Cabinet 6 December 2012) c) Treasury Management Update (Response from Cabinet 6 December 2012)	(Pages 35 - 38)	
5.	**Actions from the last meeting of the Committee (attached)**	(Pages 39 - 40)	

6.	**Future Business, the Work Plan 2012/13 (attached) and the Forward Plan.** Members will develop a schedule of work over the year to reflect the terms of reference of the Committee focussing on the Council's priorities for policy development. This includes opportunities to invite other organisations who provide services in the District to provide information to the Committee and discuss issues of importance to the Community.	(Pages 41 - 42)	
7.	**Internal Audit Progress Report - Quarter 2**	(Pages 43 - 56)	Bami Cole Tel: 01732 227000
8.	**Risk Management Update**	(Pages 57 - 66)	Bami Cole Tel: 01732 227000
9.	**Treasury Management Strategy 2013/14**	(Pages 67 - 98)	Roy Parsons Tel: 01732 227204
10.	**Budget Monitoring - November 2012 Figures**	(Pages 99 - 106)	Adrian Rowbotham Tel: 01732 227153

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Director or Contact Officer named on a report prior to the day of the meeting.

Should you require a copy of this agenda or any of the reports listed on it in another format please do not hesitate to contact the Democratic Services Team as set out below.

For any other queries concerning this agenda or the meeting please contact:

The Democratic Services Team (01732 227241)

PERFORMANCE AND GOVERNANCE

Minutes of the meeting held on 13 November 2012 commencing at 7.00 pm

Present: Cllr. Fittock (Chairman)

Cllr. Walshe (Vice-Chairman)

Cllrs. Mrs. Bayley, Clark, Mrs. Cook, Davison, Dickins, Firth, Gaywood, Grint, London, McGarvey and Piper

Cllrs. Mrs. Davison and Ramsay were also present.

94. Minutes

Resolved: That the Minutes of the meeting of the Performance and Governance Committee held on 18th September 2012, be approved and signed by the Chairman as a correct record.

95. Declarations of interest

There were no declarations of interest.

96. Audit Manager Questions (with no management present)

By way of introduction, the Audit, Risk and Anti Fraud Manager outlined the arrangements that were in place to enable Officers within the Council to raise concerns. The Council also had a Whistleblowing Policy and Procedure which enabled Officers to raise concerns anonymously. All whistleblowing concerns raised with internal audit were investigated and the results of the investigations reported to the Performance and Governance Committee.

Any financial concerns identified by the audit process were reported to the Section 151 Officer or the Chief Executive, as appropriate. If it was not appropriate to report to either of these two Officers a report would be made to the Monitoring Officer. The Audit, Risk and Anti Fraud Manager also had direct access to the Chair of the Performance and Governance Committee and could raise concerns if and when necessary. He also had a duty to report single incidents involving £10,000 or more to the Audit Commission.

The audit planning process was informed by risk and materiality of the key processes within the Council. All key financial systems were reviewed annually. The Audit Plan was presented to the Performance and Governance Committee annually and Members of the Committee could request that specific concerns be investigated, as they see fit.

In response to a question, the Audit Risk and Anti Fraud Manager reported that the audit review process was designed to identify issues of concern with an audit of key systems being undertaken on a yearly basis.

A Member queried whether auditors had complete professional free reign in drawing conclusions and the Audit, Risk and Anti Fraud Manager reported that the assurance process enjoys professional independence and if service managers disputed facts within audit findings and conclusions, further evidence would need to be provided by managers before the opinion could be altered. Once agreement had been reach between all the parties regarding the facts, the final opinion was that of the Auditor. He also confirms that he personally reviews and endorses all audit opinions.

Following the discussion the Committee considered whether it would be necessary to invite the Audit, Risk and Anti Fraud Manager to future meetings. Members considered that it was a valuable exercise, although Councillor Gaywood reported that he considered that he had not heard anything that should have prevented Managers being present throughout the discussion.

A Member suggested that it may be more efficient if this exercise was conducted at a time when the Audit Risk & Anti-Fraud Manager bought reports to committee, rather than for him to attend specially for this purpose.

> Resolved: That the Audit, Risk and Anti Fraud Manager be invited to address the Performance and Governance Committee without Managers present on an annual basis.

97. Formal Response or Consultation Requests from the Cabinet and/or Select Committees following matters referred by the Committee:

The report was noted.

98. To receive the Minutes of the Finance Advisory Group for information.

Members noted the Minutes of the meeting of the Finance Advisory Group held on 24 October 2012.

In response to a question regarding the Forward Programme, the Portfolio Holder for Finance and Value for Money reported that the Group regularly invited Heads of Service to the meeting to give Members the opportunity to review the financial performance of individual services.

99. Actions from the last meeting of the Committee

The completed actions were noted. The Chairman reported that he had asked Officers to provide further information regarding contingency planning surrounding Council Tax increases when the budget setting process was considered by the Committee in January 2013.

100. Future Business, the Work Plan 2011/12 (attached) and the Forward Plan.

The work plan was noted.

101. Annual Complaints Monitoring Report

The Committee considered a report providing an update regarding customer complaints and feedback monitoring for the year 2011/12. The report also included information from the Local Government Ombudsman's Annual Letter.

The Chairman reported that local ward Members were made aware of any complaints if complainants provided consent.

The Deputy Chief Executive and Director of Corporate Resources reported that this area had previously been managed by the Head of Finance and Human Resources but early in 2012 the service had transferred to the Head of Information and Customer Services.

The Head of Information and Customer Services reported that the number of complaints in 2011/12 had reduced across all stages.

In response to a question surrounding when compensation would be paid and how levels of compensation were calculated, the Head of Information and Customer Services gave an example of Local Tax and explained that levels of compensation would reimburse any costs incurred.

The Committee considered issues surrounding when Members were notified of complaints and the outcome of any investigation. Some Members suggested that whilst they had been notified that a complaint had been received they had not been notified of the outcome of the investigation. Officers agreed to review the processes that were in place to ensure that Members were kept informed throughout the complaints process where appropriate authorisation from the complainant had been given.

A Member suggested that it would be useful for the Committee to be provided with more detailed information regarding complaints that were referred to the Local Government Ombudsman.

In response to a query regarding complaints against elected Members, the Committee was notified that these complaints would be handled through the Standards process.

Resolved: That

a) the Annual Complaints Report 2011/12 and the reduction in the number of complaints be noted; and

b) more detail regarding complaints to the Local Government Ombudsman be included in future reports.

102. Performance Report

The Committee considered a summary of Council performance along with details of all 'Red' performance indicators for the period to the end of September 2012.

The Vice-Chairman stressed the need to ensure that the targets that were set were realistic and achievable. The Portfolio Holder for Planning and Improvement reported that targets were reviewed by Heads of Service and where necessary targets were adjusted so that aspirations remained high.

Following discussion, it was agreed that the Performance and Governance Committee would review targets immediately prior to Cabinet approving targets for the year, with a view to lowering any targets that were considered to be unrealistic and unachievable.

A Member suggested that LPI Waste 004 – Number of missed green waste collections - should be amended to enable the number of missed collections per month to be recorded. This would add more meaning to the Performance Indicator as currently, even if no collections were missed for the remainder of the year the target would not be achievable as it was currently worded. This would be reviewed.

Another Member suggested that it would be beneficial to add more data to the charts in order to add more meaning to the indicators and assist Members in identifying the extent of any problems that may be arising.

Officers agreed to provide the Committee with a definition of a major planning application.

Action 1: That a definition of a major planning application be provided to the Committee.

Turing to performance indicators surrounding development control, a Member suggested that it would be helpful for the Committee to be provided with comparative data for neighbouring planning authorities to enable Members to compare performance with other local authorities. The Chief Executive reported that there was no longer and obligation for Local Authorities to collect data and provide it in a consistent way and as a result of this it may not be possible to compare like-with-like. However, Officers would do their best to identify comparative data.

Resolved: That

a) the report be noted; and

b) the Committee review suggested performance indicators before they are approved by Cabinet in the new municipal year.

103. Property Review - Cobden Road Centre, Cobden Road, Sevenoaks

The Committee considered a report recommending to Cabinet that the Cobden Road Centre in Sevenoaks be sold on the open market by auction.

The Professional Services Manager introduced the report and explained to the Committee that the cost of the property to the Council in terms of maintenance and security was increasing each year. It was unlikely that voluntary organisations would be able to afford the level of rent that would be required and putting the property on the market opened it up to a much wider market.

Following discussions Members agreed that that the most appropriate way forward was to sell the property on the open market as soon as possible. The Committee was told that a reserve price would be placed on the property and that the legal pack for auction would details any constrains imposed as a result of the conservation area.

Resolved: That it be RECOMMENDED to Cabinet that the Cobden Road Centre, Sevenoaks be declared surplus to the Council's requirements and sold on the open market by auction.

104. Treasury Management Update

The Committee considered a report which provided details of recent developments in the financial markets and changes to credit ratings. In February 2012, Members approved the Investment Strategy as part of the budget setting process. During consideration of the Strategy Members were advised that, given the economic climate, the Strategy would need to be monitored and reviewed during the year.

The Portfolio Holder for Value for Money asked the Committee to consider widening the database of counterparties to include building societies as this would widen the investment opportunities open to the Council. Following discussion the Committee agreed that Officers should be asked to investigate widening the database of counterparties to include Building Societies.

A Member noted that the report covered the period to the end of September 2012 and that seven of the investments had matured since September. The Member asked if an updated list of investments could be circulated to the Committee with the minutes.

Action 2: That an updated investment list be circulated to the Committee with the minutes.

Resolved: That

a) the report be noted;

b) the use of Money Market Funds as outlined in paragraphs 17 to 20 of the report be increased;

c) when setting the investment strategy for 2013/14, consideration be given to increasing the counterparty limits for Lloyds Banking Group and the Royal Bank of Scotland Group to £8 million each; and

d) the possibility of widening the database of counterparties to include Building Societies, be investigated.

105. Budget Monitoring September 2012

The Committee considered a report setting out the budget monitoring position up to September 2012. Six months into the year the results showed a favourable variance of £14,000 with the year end position forecast to be £20,000 better than budget.

The Group Manager – Financial Services introduced the report and explained that the expected year end forecast was a favourable position of £20,000. The pressure on several income budgets such as Planning pre-app advice, Land Charges and Car Parks remained as these income streams were particularly affected by external economic factors and continued to be closely monitored by officers.

Due to the relatively small favourable forecast together with the known risks such as the liquidation of the market operator, Heads of Service together with members of the Finance Team had been carrying out a more in-depth analysis of the budgets for the October monitoring to give confidence that the Council's financial position would remain positive at the end of the year.

A Member queried why income from car parking was not considered to be a risk. In response the Group Manager – Financial Services explained that the reduced income had been built into the budget forecast and it would be considered a risk if the reduction had not been built in.

Resolved: That the report be noted.

THE MEETING WAS CONCLUDED AT 9.14 PM

CHAIRMAN

GRANT THORNTON UPDATE

Performance and Governance Committee - 8 January 2013

Report of the: Deputy Chief Executive and Director of Corporate Resources

Status: For Information

Key Decision: No

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager Financial Services – Adrian Rowbotham

Recommendation to Performance and Governance Committee: That the report be noted.

Introduction

1 Andy Mack, from Grant Thornton, would like the opportunity to present the following items to Members:

- The effects of the change from the Audit Commission to Grant Thornton as the Council's external auditors.
- Planned audit fee for 2012/13 (Appendix A).
- The Grant Thornton document: Towards a tipping point? (Appendix B).

Grant Thornton

2 Grant Thornton were appointed as the Council's external auditor to replace the Audit Commission with effect from 1 November 2012. This followed a procurement exercise to outsource the work of the Commission's in-house audit practice into five year regional contracts.

Planned audit fee for 2012/13

3 The Council's scale fee for 2012/13 is £56,641. Members will be pleased to see that this is a reduction of 40% compared to 2011/12 which was the intention as previously explained by Andy Mack to Members of this Committee.

Towards a tipping point?

4 This document contains a summary of the financial health reviews carried out on 24 English local authorities, between May and September 2012, which were audited by Grant Thornton.

5 Grant Thornton will in future carry out this type of review on this Council.

Key Implications

Financial

6 There are no financial implications.

Community Impact and Outcomes

7 There are no community impacts or outcomes.

Legal, Human Rights etc.

8 There are no legal or human rights implications.

Equality Impacts

9

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Risk Assessment Statement

10 The work carried out by the external auditors provides a thorough examination of the finances of the Council. Any significant issues found are reported to Members.

Appendices	Appendix A – Grant Thornton letter – Planned audit fee for 2012/13 Appendix B – Grant Thornton document – Towards a

	tipping point?
Contact Officer(s):	Adrian Rowbotham Ext.7153
	Helen Martin Ext.7483

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources

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Grant Thornton

Robin Hales
Chief Executive
Council Offices
Argyle Road
Sevenoaks
Kent
TN13 1HG

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100

www.grant-thornton.co.uk

7 November 2012

Dear Robin

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £56,641. which compares to the audit fee of £94,402 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return.

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A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £14,650. This assumes that no additional testing will be required.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	**£**
December 2012	28,321
January 2013	14,160
March 2013	14,160
Grant Certification	
June 2013	14,650
Total	**£71,291**

Outline audit timetable

We will undertake our audit planning and interim audit procedures in the February to March 2013 period. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in August 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	February to March 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to September 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to August 2013	Report to those charged with governance	As above.
Financial resilience	January to September 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work.

Our team

The key members of the audit team for 2012/13 remain unchanged, except for the Engagement Manager:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	07880 456187	andy.l.mack@gtukint.com
Engagement Manager	Geoffrey Banister	07880456177	geoffrey.c.banister@uk.gt.com
Audit Executive	Lauren Massoud	02073835100	lauren.a.massoud@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul. Dossett , our Public Sector Assurance regional lead partner (email: paul.dossett@uk.gt.com).

Yours sincerely

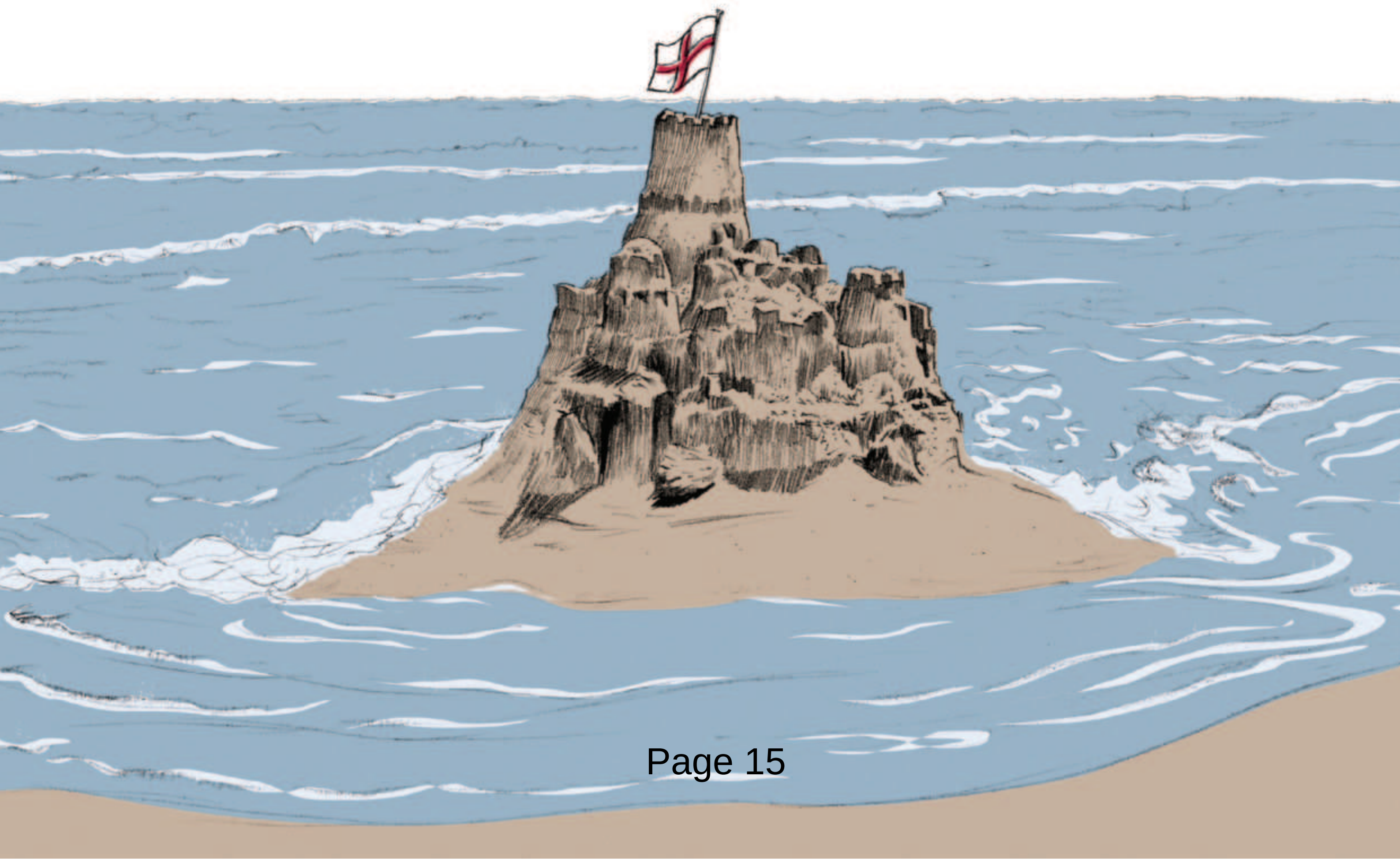
Andy Mack
For Grant Thornton UK LLP

CC Pav Ramewal, Director of Finance

Grant Thornton

Towards a tipping point?

Summary findings from our second year of financial health checks of English local authorities
December 2012



Contents

Introduction

With financial austerity due to continue until at least 2017, our financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls, to provide a summary update on how the sector is coping, drawing comparisons with last year's findings.

Background

We published our report 'Surviving the storm: how resilient are local authorities?' in December 2011. The report examined the resilience of local government in responding to the financial, economic, demographic, policy and other challenges the sector was facing, and how prepared it was for the first year of the front-loaded 2010 Spending Review.

Our analysis was based on a national programme of financial health check reviews undertaken during 2011. We have repeated these reviews during 2012 and this report updates our findings and highlights the trends that are emerging in the sector.

Context

The Chancellor of the Exchequer announced the 2010 Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014–15. The Chancellor has subsequently announced that public finances will not be brought back into balance during the lifetime of the current Parliament, and, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. Financial austerity will therefore continue until at least 2017, and further funding reductions to local government funding may emerge within the SR10 period.

With or without further funding reductions, the four-year SR10 period (2011–12 to 2014–15) represents the largest reduction in public spending since the 1920s. Revenue funding to local government will reduce in real terms by 28% by 2014–15 (excluding schools, fire and police) with local government facing some of the largest funding reductions in the public sector. In addition, local government funding reductions were partially frontloaded, with 8% cash reductions in 2011–12. These reductions followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The funding reductions come at a time when demographic changes and recession-based economic pressures are increasing demands for services, for example rising demand for social care as well as debt, housing and benefits advice, while demand for some paid-for services is reducing, such as planning and car parking. At the same time, local authorities are managing the implications of the Government's policy agendas – such as those relating to localism and open public services – that could see a significant shift in the way that public services are provided.

"With or without further funding reductions, the four-year SR10 period (2011–12 to 2014–15) represents the largest reduction in public spending since the 1920s."

Purpose of this report

To meet these significant challenges, local authorities must improve their efficiency and productivity, reduce their costs and have sustainable medium-term financial plans (MTFPs) to ensure their financial health remains robust.

This report provides a summary of the key issues, trends and good practice that have emerged from our second national programme of financial health reviews. The report provides local authorities with an up-to-date picture of how local authorities are coping with the service and financial challenges being faced by the sector. This report draws on benchmarking data provided by the Audit Commission and others, as well as the broad thematic approach adopted by the Audit Commission towards the assessment of the value for money arrangements in place in local authorities.

Our approach

Our analysis is based on reviews of 24 (7%) English local authorities undertaken between May and September 2012. This included a desk top review of key documents and interviews with key stakeholders to validate our findings. Our focus was on the 2012/13 financial planning period and the delivery of 2011/12 budgets and we analysed the following thematic areas:

- **Key indicators of financial performance**
  It is critical that local authorities maintain appropriate levels of reserve balances, regularly monitor their liquidity and long-term borrowing levels, deliver against planned budgets, and effectively manage unplanned staff absences.
- **Strategic financial planning**
  Local authorities need to be setting their budget in the context of a longer-term financial strategy and an MTFP covering, for example, a three to five year horizon. The MTFP needs to be realistic. Assumptions around inflation, income levels, demographics and future demand for services need to be modelled and based on reasonable predictions.
- **Financial governance**
  The quality of financial governance and leadership is critical in meeting the financial management challenges facing authorities, and for securing a sustainable financial position. Good basic systems, processes and controls are important, but it is the overall financial culture that makes the difference.
- **Financial controls**
  Local authorities need to manage within their budgets. They therefore need to have a robust way of challenging budget monitoring and reporting arrangements to ensure they are fit for purpose, and that they can respond to the ever greater need to demonstrate value for money and achieve efficiencies.

Within each of these themes advised by the Audit Commission, we identified a number of sub-categories (outlined in Table 1) and gave each a risk rating using the criteria provided in Table 2. A summary risk rating was also provided for each thematic area.

We have also drawn on our analysis undertaken during 2011 to identify trends in how the sector is responding to the financial challenges it faces.

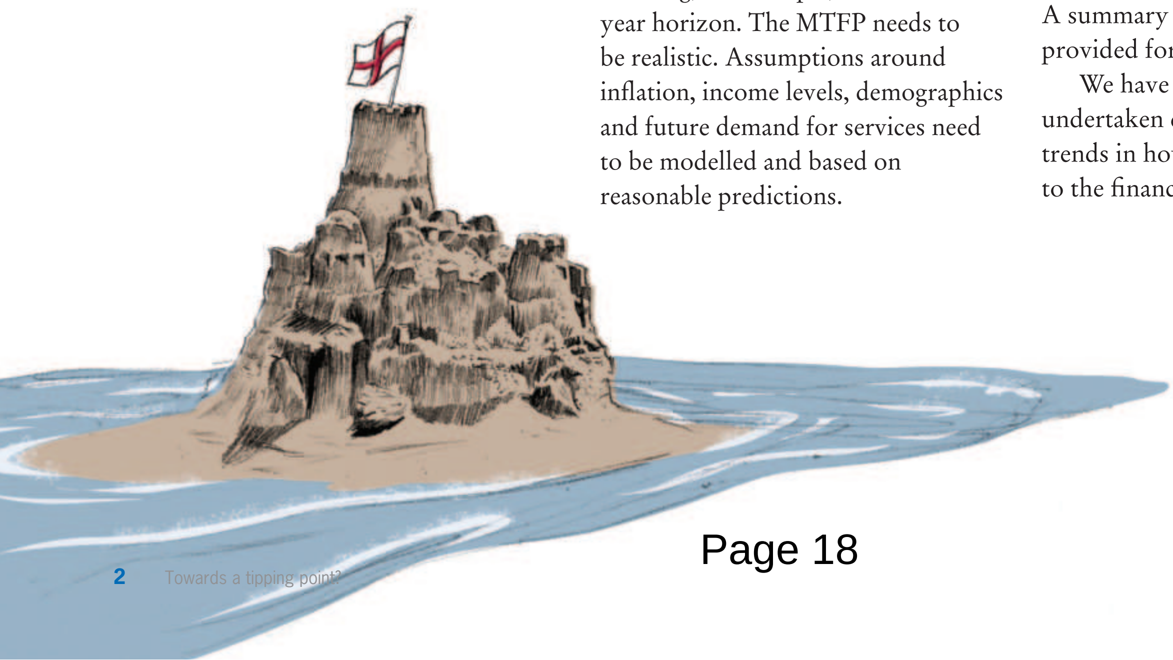


Table 1 Themes and sub-categories for analysis

Theme	Sub-category
Key indicators of financial performance*	Liquidity Borrowing Workforce Performance against budget Reserve balances Schools balances (for single tier and county council authorities)
Strategic financial planning	Focus of the MTFP Adequacy of planning assumptions Scope of the MTFP and links to annual planning Review processes Responsiveness of the plan
Financial governance	Understanding the financial environment Executive and member engagement Performance management of budgets Accuracy of committee/cabinet reporting
Financial controls	Performance management of budgets Performance against savings plans Key financial accounting systems Finance department resourcing Internal audit arrangements External audit arrangements

Table 2 Risk-rating criteria

Green	**Arrangements meet or exceed adequate standards** Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses** Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened.
Red	**High risk** The authority's arrangements are generally inadequate or may have a high risk of not succeeding.

***Note on indicators used**

While undertaking this year's programme of health checks we have had a considerable amount of debate on what are the most appropriate KPIs for local authorities' financial performance, both in terms of the type of ratio, and the industry standard of the ratios being applied. We will continue to use the ratios we have used during our first two national programmes of health checks but will ensure that, where alternative ratios are being applied by authorities, they will be identified and discussed in our 2013 report.

Towards a tipping point?

While authorities met their 2011–12 targets as they anticipated, the confidence in achieving targets in the medium-term has fallen since last year. With many factors leading to an uncertain environment in which to set financial plans, is a critical point coming where local authorities can no longer deliver?

Our 2011 review identified a somewhat surprising level of confidence in the sector that savings targets would be achieved during 2011–12, given the context that this was the first year of SR10. Was this confidence accurate or misplaced? Our 2012 programme of reviews indicates that the sector was right to be confident as most local authorities in our sample have been able to deliver against their 2011–12 budgets, indicating the continued effective leadership of senior management and elected members.

Our 2011 review also identified that this confidence diminished when discussing the medium-term. Has this position for the medium-term improved, or are the storm clouds growing ever darker? The one area where the trend between 2010–11 and 2011–12 has seen a reduction relates to the increasing level of risk associated with strategic financial planning. The challenges facing the sector remain significant and the confidence for the medium-term is, understandably, generally weaker. Tough decisions have again been made when setting the 2012–13 budget, but managing the on-going implementation of these decisions and their impact on service users and staff will not be easy.

Historically, as a sector, local government has typically delivered whatever central government of all parties has asked of it over the past 30 years, such as the localisation of housing benefits, introduction of the Community Charge and then the Council Tax, Local Government Reorganisation (many times), and annual Gershon efficiency targets.

Our analysis of 2011–12, the first year of SR10, indicates the sector continues to deliver. However, local government's resilience over the medium-term remains far less certain. At the time of writing, we are half-way through the term of the current, fixed Parliament, but only 25% of the Government's fiscal consolidation plans have been implemented, with the majority still to be delivered over the next two and a half years.

Factors leading to uncertainty in local government financial planning include:

- the delivery of on-going SR10 funding reductions, with possible further funding reductions during this spending review period, and a lack of certainty of the funding landscape post 2015
- the weakness of the economy which both depresses income sources and increases local government welfare related spending
- the timing of the 2013–14 Local Government Finance Settlement, which at the time of writing is due to be late December 2012, providing a very limited lead in period to feed into the 2013–14 financial planning cycle
- restrictions on local authorities to generate additional funding by increasing Council Tax during 2013–14 due to the Government's effective freezing of the tax for a further year
- the opportunities and challenges that arise from the localisation of business rates, the reduction to Council Tax benefit funding, and the introduction of the universal credit
- the consequences of implementing the Government's policies, such as academies, health and wellbeing boards, Local Enterprise Partnerships and the Localism Act
- the pressures of an ageing population with an increasing complexity of need impacting on social care delivery, a key spending pressure area
- limitations on the ability to finance capital projects.

Will delivering services in this context be any different to the recent past? Our analysis and discussions with the sector indicate that a 'tipping point' is on the horizon, but what form this could take remains unclear. A tipping point has been described as the critical point in an evolving situation that leads to a new and irreversible development.

We have identified a number of scenarios for such a tipping point. These relate to an individual local authority, rather than the local government system as a whole:

- **Statutory** – where a local authority can no longer meet its statutory responsibilities to deliver a broad range of services within the funding available, leading to legal challenges and protests from impacted stakeholders.
- **Financial** – where the Section 151 Officer is unable to set a balanced budget, leading in the first instance to an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales); or where the increased uncertainty leads to budget overspends of a level which reduces reserves to unacceptably low levels; or where an authority demonstrates characteristics of an insolvent organisation, such as a failure to pay creditors.
- **Industrial** – as a consequence of pay restraint, changes to terms and conditions, and job losses, employees and trade unions enact prolonged strike action, leading to major service disruption and long-term industrial relations disputes.
- **External** – failure of a major supplier, leading to significant service disruption and reputational damage to the authority.
- **Incremental** – multiple, smaller tipping points relating to individual service areas, developing over a period of time, leading to an eventual critical mass of tipping points.
- **Decision paralysis** – failure to make the challenging but necessary decision required to manage financial and other challenges.

We do not believe that all authorities share the same level or types of risk. We do not therefore suggest that all authorities could experience a tipping point. We will continue to engage with the sector to explore the concept of a tipping point, to identify if any of these scenarios above (or others) could be possible for an individual authority, and what the consequences would be for stakeholders, in particular service users. Once there is greater understanding of such scenarios, we will begin to analyse what actions need to be taken to mitigate or avoid such tipping points.

During 2012 we have had many discussions across the sector on the findings set out in 'Surviving the storm', our 2011 report. The overwhelming feedback has been that our findings, based on a significant, but relatively small, sample, were echoed across the sector. We hope that the findings in this report resonate in the same way.

We will be undertaking a third year of financial health reviews of local authorities during 2013, in relation to the 2013–14 financial planning cycle and the delivery of budgets and savings plans during the 2012–13 financial year. We will publish the summary results of this work during Autumn 2013. Our audit client base has increased to 40% of local authorities in England, so our next report will be based on a significantly increased programme of local authority financial health checks.

The summary findings from our 2012 reviews, and the trends between our 2011 and 2012 reviews, are set out in the following sections.

Our discussions with the sector indicate that a 'tipping point' is on the horizon, but what form this could take remains unclear. A tipping point has been described as the critical point in an evolving situation that leads to a new and irreversible development.

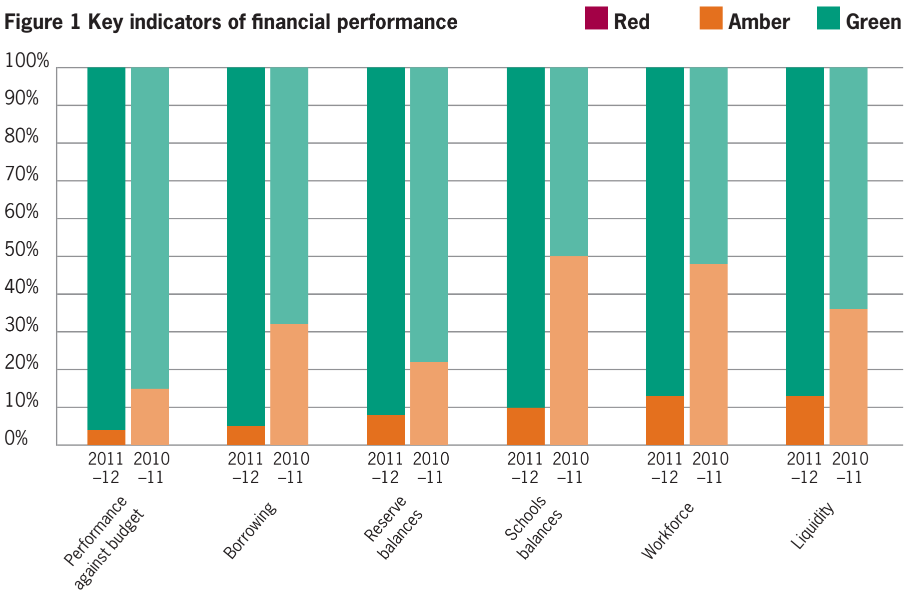
Key indicators of financial performance

Analysis of financial and other ratios for benchmarking indicates strength in performance against budget remain strong, while the gearing of long-term borrowing and reserve balances have improved on last year. Despite considerable improvement, managing the workforce remains a critical area, alongside liquidity where the trend for reducing working capital continues.

Our 2011 report noted that, while local government accountants have an understanding of the use of financial ratios to interpret financial statements, this skill has traditionally only been applied to procurement exercises. Our review last year represented one of the first times that financial ratios have been applied to local authority financial statements for the purpose of inter-authority benchmarking.

Figure 1 provides a summary of our ratings for selected key indicators of financial performance for our most recent reviews, and the results of our same review for the previous year. For each authority we benchmarked key indicators against their nearest neighbour group.

Figure 1 Key indicators of financial performance



Performance against budget

The track record of local authorities in our sample in managing revenue budgets during 2010–11, which included in-year government funding reductions, and in previous years was generally good, with 86% being rated green. The trend for 2011–12 was an improving one, with 96% rated green. Given that 2011–12 was the first year of SR10 funding reductions, and these reductions were front-loaded to 2011–12, this represents a significant achievement for the sector.

However, the challenges facing authorities are only increasing and the key question of how long the sector can continue to deliver against reduced funding has been discussed in more detail in the previous section (pages 4–5).

Borrowing

We reviewed long-term borrowing as a proportion of long-term assets and as a share of tax revenue. The majority (69%) of authorities in our sample in 2010–11 had an appropriate ratio of long-term borrowing to long-term assets, and long-term borrowing as a share of tax, indicating that the level of borrowing was effectively geared. The trend across our sample has improved for 2011–12 with 95% of authorities rated green, with long-term borrowing ratios reducing. A key factor has been strategies for reducing high interest-bearing, long-term borrowing and moving to internal and short-term external borrowing to take advantage of improved lower level borrowing rates, alongside a greater degree of caution with long-term borrowing following the experience of investment in Icelandic banks.

Reserve balances

We noted in our 2011 report that authorities had generally acted prudently over a long period, but that we were starting to see General Fund Reserves being used to fund General Fund revenue expenditure. Of our sample, 79% were rated green in 2010–11 which has increased to 92% in 2011–12. The overall trend has been an increase in the level of reserves, which is supported by 2011–12 Revenue Outturn (RO) return data. This reflects the better than expected performance in delivering 2011–12 revenue budgets. Nonetheless, it will be critical that reserve levels, both general and earmarked, are carefully monitored to ensure the financial resilience of authorities during SR10 is maintained.

Schools balances

For single tier and county council (STCC) authorities with responsibility for education, we analysed the ratio of schools balances as a proportion of dedicated schools grant. There is a trend of increasing schools balances, indicated by an increase in green ratings from 50% in 2010–11 to 90% in 2011–12. A key factor in this trend is that schools appear to be adopting a cautious approach to financial management due to concerns over future funding levels, in many cases leading to underspends. In addition, the financial risks associated with schools transferring to academies are leaving deficits which authorities will need to fund.

Workforce

The focus for this indicator was the level of sickness absence. Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. It is clear that most authorities continue to proactively manage absenteeism, with a reduction from 57% receiving amber scores for 2010–11 to 12% receiving amber scores for 2011–12. Absence management will continue to be a challenge for authorities during SR10, particularly given the context of significant pressures on staff to deliver ‘more for less’.

Liquidity

This indicator looks at the working capital ratio, indicating if an authority has enough current assets to cover its short-term liabilities. Of our sample, 35% scored amber in 2010–11 and 65% scored green. This has improved for 2011–12 with 12% scoring amber and 88% green.

The overall trend noted for 2010–11 was of reducing working capital. This trend has continued for 2011–12. The improvement in the risk rating scores is a result of a further analysis undertaken during our second year of reviews to better understand the context of falling liquidity. In particular, we identified local authorities’ treasury management strategies to reduce long-term borrowing resulting in a planned reduction in liquidity. The level of borrowing room available to authorities should they wish to draw down to meet liquidity issues was also a factor in this year’s ratings. Nonetheless, local authorities will need to carefully monitor their liquidity levels during SR10 to ensure financial resilience is maintained.

Best practice

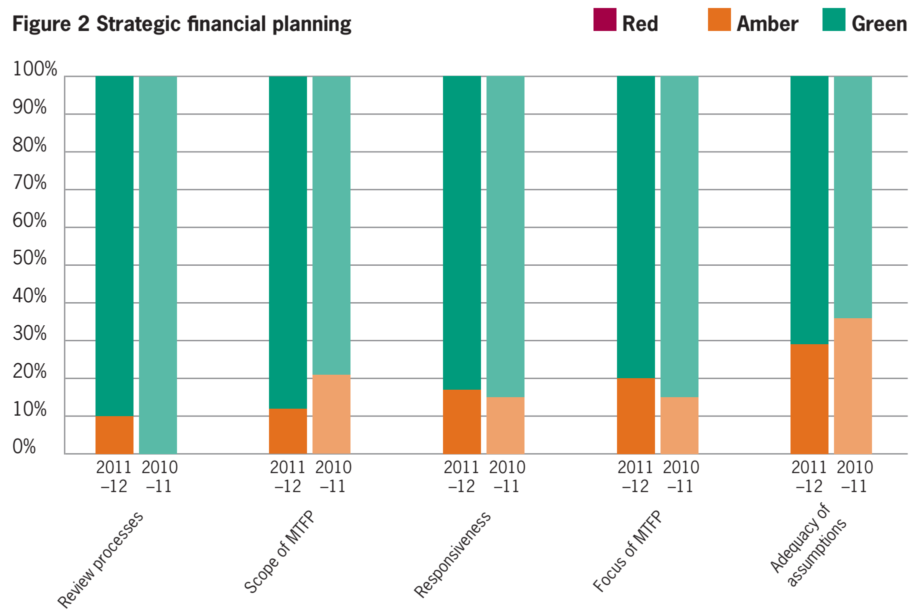
- The authority operates within a locally determined appropriate level of reserves and balances.
- The General Fund balance is maintained at or above the locally agreed minimum level.
- Working capital is at, or above, a ratio set by the Section 151 officer.
- Manageable levels of long-term borrowing within prudential borrowing limits.
- Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators.
- The authority has a track record of spending to budget and proactively managing forecast overspends in-year.
- A robust organisational approach and focus on absence management to improve productivity, reduce costs and enhance customer service.

Strategic financial planning

Having learnt from the previous year, 2012–13 planning cycles were typically started earlier to ensure adequate time to finalise their savings programme and a few authorities have chosen to focus on setting the 2012–13 budget, over updating 2011–12 plans. Scenario planning remains generally weak, but is even more critical given uncertainty about the Government's spending plans.

Strategic financial planning had the best overall rating across our sample for 2010–11, but this is the only thematic area that has seen a reduction in its overall rating for 2011–12. Figure 2 provides a summary of our ratings for selected key indicators of strategic financial planning and the key findings are set out below.

Figure 2 Strategic financial planning



Review processes

Of our sample, 100% was rated green for this category for 2010–11. This decreased to 91% for 2011–12. This indicates that the majority of authorities still have effective processes for the regular review of the MTFP and the associated assumptions, including appropriate scrutiny from elected members, including the Audit Committee. The increase in amber ratings to 9% is a result of a minority of authorities in our sample who have not updated their plans, focusing instead on setting the 2012–13 budget.

The scope of MTFP and links to annual planning

Of our sample, 78% was rated green for this category for 2010–11. This had increased to 88% for 2011–12. The 2012–13 planning cycles typically started earlier than the previous year, reflecting a key lesson learnt from 2011–12 planning cycle: given the scale of the savings requirement, many authorities had not allowed enough time during their financial planning cycle to ensure adequate finalisation of their savings programme.

Good practice authorities demonstrate effective integration of the service and financial planning processes. However, individual services often undertake modelling of demand to understand the impact on future spending levels, but this information is often not consolidated within the plan, limiting the potential of members to understand in detail all the demand led financial challenges an authority faces.

Responsiveness of the plan

Of our sample, 86% was rated green for this category for 2010–11. This has reduced to 83% for 2011–12. Many authorities commenced the 2012–13 financial planning cycle early in the first quarter of 2011–12, having learnt from the previous financial planning period. There is a general recognition that assumptions may change during the lifetime of the plan, that the plan must evolve and be responsive to the external environment.

The focus of MTFP

Of our sample, 86% received a green rating for 2010–11. This had reduced to 79% for 2011–12. While many MTFPs have been refreshed for 2011–12 and typically receive greater challenge and scrutiny than in prior years due to the scale of savings required, many authorities have struggled to develop certainty on key factors affecting the financial position beyond 2012–13, such as the localisation of business rates and the reduction in Council Tax benefit funding, resulting in a return to a more annualised approach to financial planning for some authorities.

Developing budgets and savings plans on a departmental basis, and then reviewing them centrally by senior management and cabinet, remains the typical approach in the sector. The use of zero based budgeting (ZBB) also remains limited across our entire sample. Local authorities should consider adopting, in an appropriate and controlled way, aspects of ZBB to improve the strategic prioritisation during the financial planning cycle.

Some authorities, when updating their plans, noted that their key focus should be the maximisation of financial resilience rather than service improvement, with the aim being to ensure that the plans in place are affordable and sustainable in the light of resources that can reasonably expect to be available. This suggests that the savings are targeted where they have the least impact on priorities to ensure that there are no unplanned service reductions.

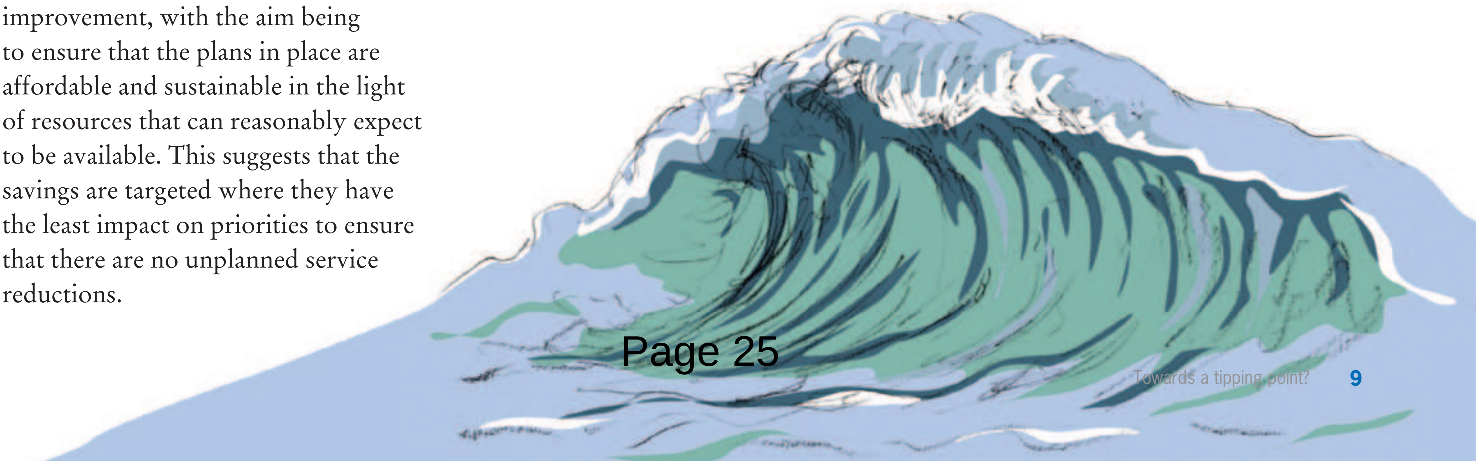
Adequacy of planning assumptions

This was the weakest category in relation to financial planning for 2010–11, with 36% of the sample receiving an amber rating. It was again the weakest category for 2011–12, with 29% receiving an amber rating.

While many plans had been updated, a number of authorities had not revisited funding assumptions for 2013–14 due to continuing uncertainties relating to the Government's spending plans. Scenario planning remains generally weak and sensitivity analysis patchy across the sample group. However, the lack of certainty should increase, not reduce, the need for effective scenario planning in relation to funding and other factors such as demographics. Local authorities will need to ensure they have the skills and capacity to develop and maintain an effective financial model that underpins their MTFP.

Best practice

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- Service and financial planning processes are integrated.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working.
- Annual financial plans follow the longer-term financial strategy of the authority.
- There is regular review of the MTFP and the assumptions made within it. The authority responds to changing circumstances and manages its financial risks.
- The authority has performed sensitivity analysis on its financial model using a range of economic assumptions, including the impact of SR10.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.
- Zero Based Budgeting is used to improve strategic prioritisation during the financial planning cycle.
- Effective treasury management arrangements are in place.



Financial governance

This year has seen a deeper engagement of senior management and members in relation to planning. While the performance management of budgets had increased, and forecast overspends are being managed corporately, rather than in departmental silos, the ability to manage volatile, demand-led budgets remains a challenge.

Figure 3 provides a summary of our ratings for selected key indicators of financial governance.

Executive and member engagement

Our 2010–11 review rated 79% of our sample as green. This increased to 100% for 2011–12. This indicates that the level of senior management and member engagement in relation to financial planning, reporting and management is appropriate in the sector.

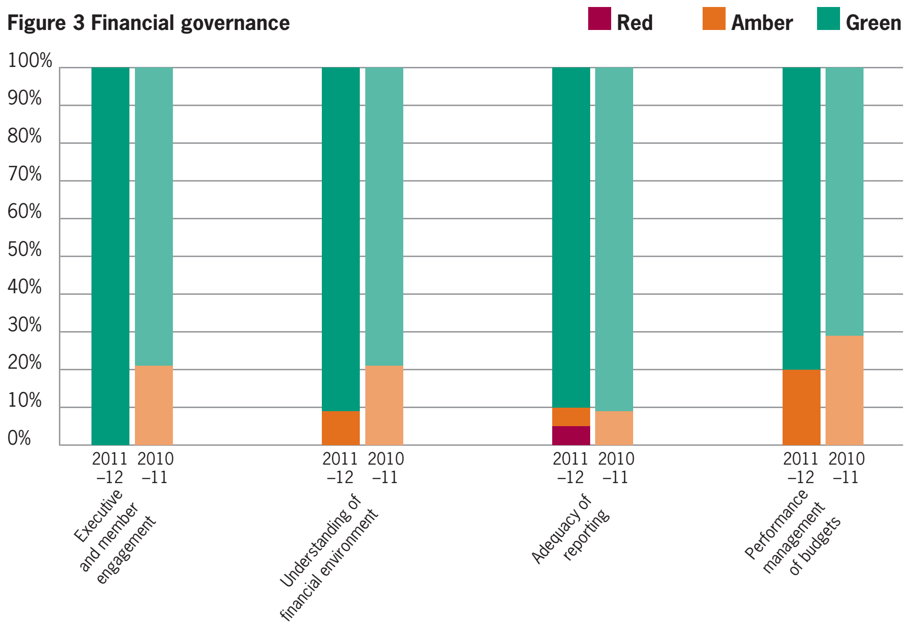
We will continue to monitor the engagement of audit committees within local government, as the role of this committee becomes more prominent, and the demands increase on members.

Our 2011–12 reviews considered controls over key cost categories which formed part of executive and member engagement for our 2010–11 reviews. This category saw 82% of our sample rated green. Features of those receiving amber ratings included an unclear scheme of delegation, and lack of consistency in the application of unit cost data.

Understanding of the financial environment

Of our sample, 79% was rated green for 2010–11. This increased to 92% for 2011–12. Senior leadership continue to recognise the importance of communicating the impact of SR10 to all staff and elected members.

Figure 3 Financial governance



Many also recognise the need for greater consultation with their local communities on spending and saving priorities. With a focus on protecting front-line services, back office functions such as finance have seen significant reductions in staff numbers during 2011–12. As noted in our 2011 report, a key trend across many authorities in response to these reductions is greater financial management responsibilities being placed on service managers and budget holders, with job descriptions and competencies being enhanced to reflect this change. In parallel to this, the finance function is providing higher level and more targeted support to services. Our follow up reviews indicate that the implementation of these changes by both finance and service staff has been mixed. Clearly these cultural and process changes will take time to embed, and it will be essential that authorities monitor such changes, given the significant risks to effective financial management that failure to embed these changes could create.

Adequacy of reporting

We continue to find comprehensive levels of timely financial reporting to senior management and members, with a growing trend to consider financial monitoring reports alongside performance and workforce data, which is good practice. 93% of our sample was rated green for 2010–11; this had reduced slightly to 92% for 2011–12. The overall position has not changed, with most authorities continuing to utilise risk based exception reports allowing decisions to be made on corrective action and to allocate responsibilities for these actions.

In most cases, year-end forecasts are effective in providing no surprises; however, a minority of authorities do not fully apply commitment accounting, which poses a risk to the provision of accurate outturn forecasts.

It is worth noting that this category included the only red rating (5%) in this year's programme. Factors leading to this rating included the timing and the period against which performance was reported during 2011–12 was not consistent and differed between bodies receiving reports, limited frequency of reporting, lack of reporting on savings, failure to use graphics and propensity to use lengthy narrative, and Cabinet reports only including forecast year-end outturn position, and not the actual position against a profiled budget.

Performance management of budgets

Of our sample, 71% were rated green for 2010–11. This increased to 79% for 2011–12. This was the lowest score for a category in Financial Governance for 2010–11, and it was the joint lowest category score for 2011–12, although it reflects a reasonable position overall. Local authorities continue to face challenges managing volatile, demand led, budgets. Our sample indicates a growing maturity amongst authorities in managing forecast overspends corporately, rather than within departmental silos, which is good practice. However, the challenges of setting appropriate budgets and then spending within them (or generating forecast levels of income) continues to be one of the key risks and challenges.

Best practice

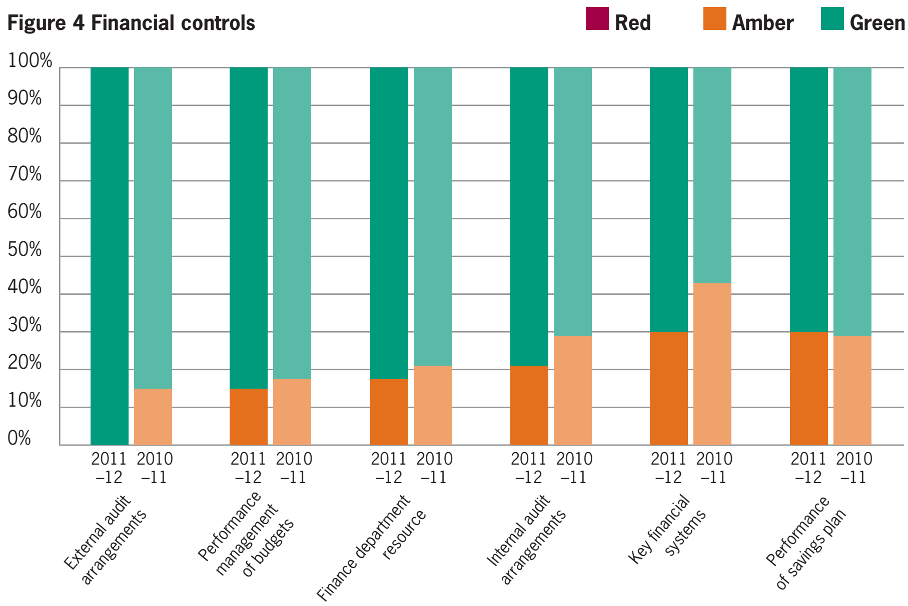
- Regular reporting to members. Reports include detail of action planning and variance analysis.
- Actions have been taken to address key risk areas.
- The CFO is a key member of the leadership team.
- Officers and managers across the authority understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation, for example a good understanding of unit costs and cost drivers.
- The leadership foster an open environment of open challenge to financial assumptions and performance.
- There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities.
- There is engagement with stakeholders, including budget consultations.
- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Internal and external audit recommendations are not overdue for implementation.
- Committees and cabinet regularly review.

Financial controls

The use of financial controls had improved on the prior year. Impressively, in-year savings are being delivered, although there is a lack of transparency in reporting performance against budgeted savings and demonstrating that the savings agreed have been delivered as planned.

Figure 4 provides a summary of our ratings for selected key indicators of financial controls.

Figure 4 Financial controls



External audit arrangements

We rated 86% of our sample green for 2010–11. This increased to 100% for 2011–12, the highest level for this, or any, theme. This indicates that IFRS accounting and associated budget and chart of account restructurings have been effectively embedded, and external audit had not identified serious issues in relation to the accounts or in relation to the value for money conclusion.

Performance management of budgets

The financial controls in place to ensure effective performance management of budgets were generally good for 2010–11, with 83% of our sample rated green. This has improved slightly for 2011–12 with 86% rated green. Those authorities who scored amber typically still need to improve the accuracy of financial reporting, for example by having accurate budget profiles, an improved understanding of cost drivers, and better use of benchmarking, trend analysis and unit costs. A more effective approach to presenting financial information is also required.

Finance department resource

Of our sample, 78% was rated green for 2010–11. This has increased to 83% for 2011–12. This indicates that the majority of authorities have been able to manage the impact of funding reductions to this part of the back office. Our 2012 reviews were undertaken prior to the finalisation of 2011–12 accounts, so we have not reviewed the effectiveness of reduced finance resources for a complete annual financial cycle. This is something we will focus on during our 2013 reviews. The ability of finance teams to withstand planned and unplanned absences in providing support to services remains a key risk for authorities, given widespread reductions in staff numbers and the context of the delivery of major savings at a time when services are taking on enhanced financial management responsibilities.

Internal audit arrangements

The majority of authorities in our sample (71%) were rated green for 2010–11. This has increased to 79% for 2011–12. Most authorities continue to apply a risk based approach to audit planning and involve services in this process, have a robust process for preparing and reporting the Annual

Governance Statement, and an engaged audit committee. Those authorities who were rated amber had weaknesses such as audit plans that are traditional, process driven and not based on risk prioritisation, for example audit plans that do not vary year on year.

Key financial systems

Of our sample 57% was rated green for 2010–11, which was the lowest level for Financial Controls. This rating has increased to 71% for 2011–12 which is the joint lowest green rating for Financial Controls.

Local authorities typically have well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions. We noted in our 2011 report that many authorities are considering enhancing the functionality of their key financial systems to ensure the burden of producing work around financial information does not fall to non-financial managers, given the reduction in finance staff, previously discussed. While progress is being made, such changes take time to specify, procure and implement. The risks associated with such work around solutions, in the context of reducing finance resource and increasing financial management responsibilities within services, will require careful monitoring by authorities in this position.

Performance of savings plan

Local authorities have a good track record of delivering efficiencies. Most authorities were able to effectively manage the 2010–11 in-year funding reductions with 71% of our sample rated green. For 2011–12 the position remained at 71% receiving a green rating. Given the context of front-loaded year one SR10 savings this indicates a considerable achievement.

A key factor to emerge from this year's reviews is that there is a lack of transparency in the way some authorities report performance against budgeted savings. While there have been undoubted improvements in the way local authorities manage and monitor their savings plans, the sector does not effectively report countervailing (alternative) savings that may be being achieved. Therefore, so long as a reduced budget, which incorporates agreed savings, does not overspend at year end, it can be considered a success. The reality, however, may be that other factors have led to the break-even position or underspend. For example, management decisions to hold vacancies that did not form part of the original savings plan may be hidden from management information (and the consequent impact on service delivery may not be identified). This approach is not unique to local government; indeed it is common across the public sector. But given the level of savings being delivered, and that are still to be delivered, it is critical that key stakeholders understand if the savings agreed have been delivered as planned.

Best practice

- Budgets are robust and prepared in a timely fashion and the authority has a good track record of operating within its budget.
- Budgets are monitored at an officer, member and cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- Budget profiles are accurate and regularly monitored.
- There is particular focus on monitoring income-related budgets.
- Savings programme reporting includes effective management information on countervailing savings.
- The capacity and capability of the finance department and service departments are fit for purpose for effective financial planning and financial management.
- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs, for example commitment accounting functionality is available.
- There is an effective internal audit which has the proper profile within the organisation and agreed internal audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the authority and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

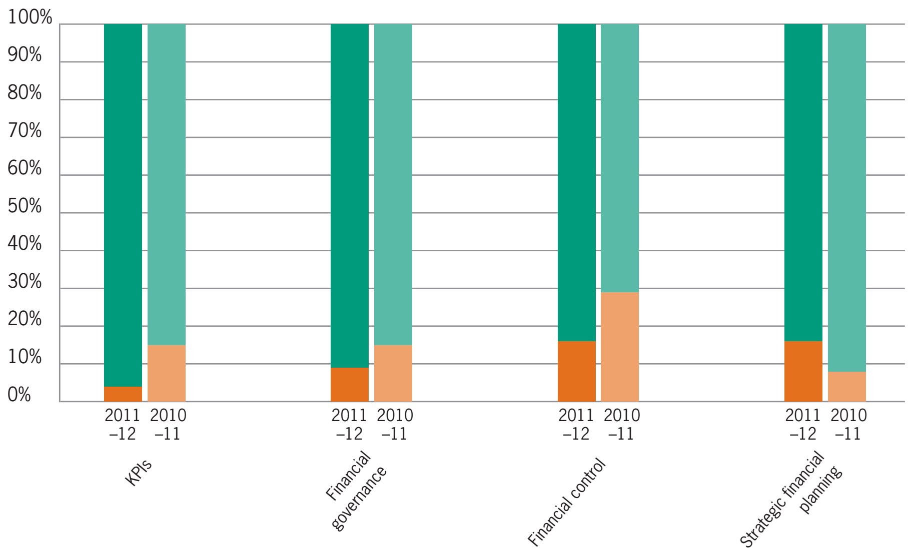
Summary and conclusions

Overall, local authorities have continued to manage in the current environment, but improving scenario planning, sensitivity analysis and reporting of savings programmes as well as ensuring financial governance arrangements remain robust will help finance management to influence key stakeholders in the uncertain times ahead.

The overall trend for many of the categories we have rated is a slightly improving position between 2010–11 and 2011–12. This is replicated in three of the four themes in Figure 5. Overall, local authorities have coped very well with delivering the first year of SR10. A summary for each theme follows.

86% of authorities were rated green for **key indicators of financial performance** for 2010–11, and this has increased to 96% for 2011–12. For each category in this thematic area the trend has been an increasing level of green ratings and reducing levels of amber ratings, with liquidity receiving the lowest overall rating (87%). While for many authorities their Treasury Management Strategy is leading to a planned reduction in liquidity, and borrowing headroom provides a degree of confidence for the medium-term, authorities will need to ensure that their liquidity is carefully monitored, for example in the collection of council taxes and business rates during challenging economic times. The overall position indicates that local authorities are both treating the financial challenges being faced seriously, and delivering against their financial plans. It was pleasing to see during our 2012 reviews that a number of authorities reflected some of our 2010–11 KPI recommendations in their updated MTFPs.

Figure 5 Summary ratings: local government



Local authorities demonstrated good **financial governance** during our 2010–11 reviews, with 86% receiving green ratings. This has increased to 92% for 2011–12. Local authorities will need to continue to ensure financial governance arrangements remain robust. Given the generationally significant financial challenges facing authorities, it will be particularly important that the chief financial officer is a key member of the authority's leadership team. This theme has the first sub category to receive a red rating (Adequacy of Reporting) and it will be critical that financial information is reported accurately, at the right frequency, and in a format that ensures effective monitoring and decision making. This includes where services are not delivered in-house, which will be an increasing trend for the sector.

Our 2010–11 reviews indicated that the weakest thematic area was **financial controls**, with 71% of authorities receiving a green rating. Our 2011–12 reviews indicate an improvement, with 83% of our sample receiving a green rating. However, this is the joint lowest overall rating, along with strategic financial planning. A key risk to be managed in this area continues to be embedding the changes resulting from reductions in finance staff and

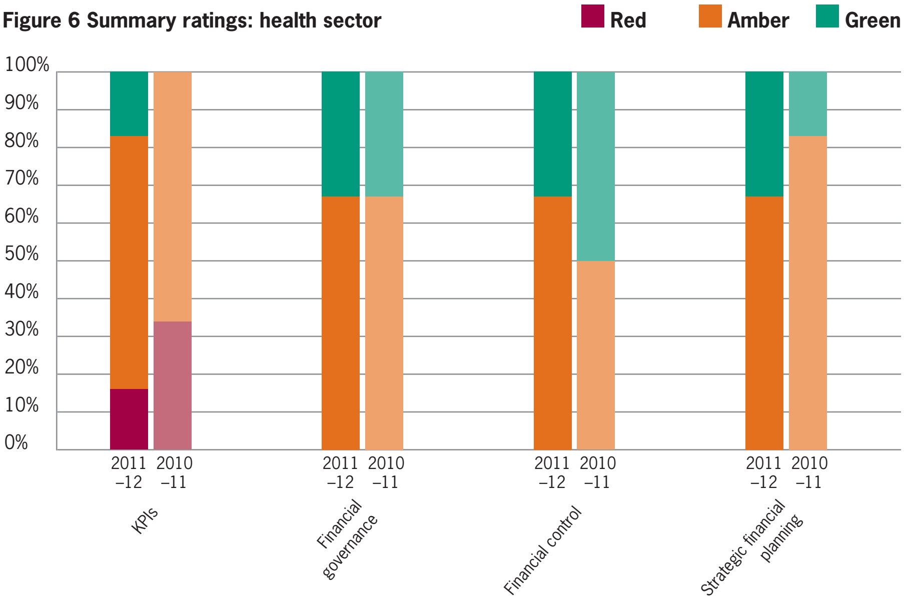
Key findings from health sector reviews

- Liquidity problems for more bodies, manifested by the need for working capital loans to be taken out during 2010–11 or 2011–12 or expected in 2012–13.
- Cost improvement programmes (CIPs) increasing, in some cases to unprecedented levels, with some 2012–13 programmes lacking headroom, or with schemes not being fully identified, or lacking effective detail.
- Failure to achieve CIP savings during 2011–12 for some bodies, leading to doubt over the planned achievements for 2012–13.
- A continued environment of extreme uncertainty, leading to merger proposals in several cases for trusts that have not yet achieved foundation trust status.
- Weak performance against the Public Sector Payments Policy targets.

the associated increase in financial responsibilities of service managers and budget holders. Local authorities also need to improve the management information relating to the reporting of savings programmes, in particular with the inclusion of greater detail on the use of countervailing savings, so that key stakeholders can better understand the impact on service delivery and policy decisions, where such alternative savings are being applied to pre-agreed targets.

Local authorities demonstrated strong **strategic financial planning**, during our 2010–11 review, with 93% in our sample receiving a green rating. This declined to 83% for 2011–12, the only thematic area that saw a fall in the overall green rating. While this remains at a high level overall, the reduction highlights the increasing difficulty local authorities face in planning for the medium-term in what remains a greatly challenging and uncertain period. It remains critical that authorities improve their scenario planning and the use of sensitivity analysis on key assumptions in their financial models. As we noted in our 2011 report, we believe authorities can learn directly from the financial modelling analysis required by Foundation Trust applicants in the NHS.

Figure 6 Summary ratings: health sector



Comparison to the health sector

We undertook similar reviews of a sample of NHS trusts and primary care trusts (PCTs) for both 2010–11 and 2011–12.

The methodology used for our reviews of health bodies was the same as that used for local authorities, and the summary results for our sample of health bodies are set out in Figure 6. Our 2011 report observed that, despite NHS funding levels being maintained by the Government, health bodies received lower ratings than local authorities for 2010–11, with significantly lower levels of green ratings across themes, and with no green ratings for key indicators of financial performance. There has been some improvement for 2011–12. For example, and unlike local authorities, strategic financial planning for health bodies has improved. Health bodies have also seen an improvement for KPIs and the overall position for financial governance has stabilised. However, the overall ratings remain significantly lower than the overall local authority ratings.

As we noted in our 2011 report, the underlying causes of these findings predate SR10, and relate to long-term structural issues, particularly within the acute sector. Like local government, performance is varied, but the higher performing trusts are often very good at scenario planning and sensitivity analysis as a response to volatile demand-led costs and income, although the sector as a whole has difficulty in delivering to these budgets.

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Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector. We take an active role in influencing and interpreting policy developments affecting local government and responding to Government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

Contact us

Sarah Howard
Head of Local Government
T 0113 200 2530
E sarah.howard@uk.gt.com

Guy Clifton
Local Government Advisory Lead
T 020 7728 2903
E guy.clifton@uk.gt.com
Twitter @guy_clifton

Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com
Twitter @paul_dossett

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FORMAL RESPONSE OR CONSULTATION REQUESTS FROM THE CABINET AND/OR SELECT COMMITTEES FOLLOWING MATTERS REFERRED BY THE COMMITTEE

a) 2013/14 Budget and Review of Service Plans (Response from Cabinet 6 December 2012)

69. Budget Update

The Portfolio Holder for Finance and Value for Money introduced a report setting out the progress made in preparing the 2013/14 budget and providing Members with an update on key financial information. The Cabinet would make its final recommendation on the budget at its meeting on 7th February 2013, after taking into account any updated information available at that date.

The Portfolio Holder for Finance and Value for Money reported that a list of growth and savings items resulting in net growth of £160,000 had been presented to the Select Committees who recommend that these items be included in the budget. Uncertainty over two major funding streams remained. Provisional Government Support figures were not expected until 19th December and the Council would need to decide on the level of Council Tax for 2013/14 following the Government's announcement of another freeze grant being offered and a cap being set at 2%.

Due to these uncertainties, a further report will be presented to Cabinet in January which would hopefully contain a more complete picture including whether further savings would be required.

The Group Manager – Financial Services highlighted that whilst the Government settlement was not expected until 19th December, this date was by no means confirmed and there could be further delays in the process. There had been no further information as to what the reduction in funding was likely to be. Members noted that there was a statutory requirement for the budget to be set in February 2013.

In regard to Council Tax, from a financial perspective, the Group Manager – Financial Services stressed that it would be significantly advantageous if the Council Tax for 2013/14 was set close to the 2% cap instead of taking the grant being offered if it was frozen.

For the report to Cabinet in January 2013, Officers would update the 10-year budget with the settlement figure and any Council Tax decision as well as revisiting the other assumptions with any additional information that had become available. If a budget gap remained, difficult savings decisions would need to be made.

The Group Manager – Financial Services had sent an email to all Town and Parish Councils the previous week informing them of the effect of the Government changing their decision as to how the Council Tax Base was calculated for these authorities. The Government would be giving Sevenoaks District Council some funding to help address the effect on these councils which would be allocated proportionately based on the impact of the change to Council Tax Support.

The Chairman suggested that, as the Government grant became more marginal, Sevenoaks District Council would need to manoeuvre into a self-sustaining position in order to become less reliant on any future grant.

A Member suggested that the savings assumptions around partnership working be reviewed to ensure that they were realistic assumptions. Whilst acknowledging the point that was being made, the Chairman stressed that assumptions were constantly tested.

Members stressed the need to consider the £160,000 savings that the Council would need to make and the Chairman tasked each Portfolio Holder to have discussions around the options available before the Cabinet meeting in January.

Resolved: That

(a) The comments and recommendations of the Select Committees as set out at Appendix E be noted;

(b) Officers and Portfolio Holders be requested to investigate further proposed solutions for the £160,000 budget shortfall.

b) Property Review – Cobden Road Centre, Cobden Road, Sevenoaks (Response from Cabinet 6 December 2012)

58. Property Review - Cobden Road Centre, Sevenoaks

Members considered a report recommending that the Cobden Road Centre in Sevenoaks be sold on the open market by auction. It was noted that the report had previously been considered by the Finance Advisory Group and Performance and Governance Committee.

The Professional Services Manager reported that a Planning Statement would be provided for the auction and the Statement would outline the conservation particulars. The next auction would close on 7th January 2013, the auction would take place on 4th February 2013 and the process should be completed by March 2013.

The Portfolio Holder for Finance and Value for Money reported that a local resident had attended the Finance Advisory Group meeting and had supported the proposals outlined.

Members thanked the Professional Services Manager for the work that he had undertaken in preparing for the sale of the property.

Resolved: That the Cobden Road Centre, Sevenoaks be declared surplus to the Council's requirements and sold on the open market by auction.

c) Treasury Management Update (Response from Cabinet 6 December 2012)

60. Treasury Management Update

The Portfolio Holder for Finance and Value for Money introduced a report giving details of recent developments in the financial markets and changes to credit ratings, fulfilling the reporting requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. In addition to this, the report also included an update on the Council's Icelandic bank investments.

The Portfolio Holder for Finance and Value for Money reported that Investment returns continued to be generally low, however the Council had managed to obtain some better rates which meant that the investment income targets for the year were currently being exceeded.

Due to the down-grading of several banks ratings this year, there continued to be a lack of available investment opportunities within the limits of the Strategy. Therefore the following actions had been recommended:

- The wider use of Money Market Funds,
- When setting the investment strategy for 2013/14, consideration be given to increasing the counterparty limits for Lloyds Bank Group and Royal Bank of Scotland Group to £8m each; and
- That the possibility of widening the list of counterparties to include building societies be investigated by the Finance Advisory Group.

Members agreed that Officers and the Finance Advisory Group should explore widening the list of Counterparties to include Building Societies.

The Group Manager – Financial Services undertook to circulate a list of the Council's current investments at the conclusion of the meeting.

In response to a question regarding the Chancellor's recent Autumn Budget Statement, the Group Manager – Financial Services reported that the latest forecast for interest rates was now not predicting an increases until March 2015

Resolved: that:

(a) The report be noted;

(b) The use of Money Market Funds as outlined in paragraphs 21 to 29 of the report be increased;

(c) When setting the investment strategy for 2013/14, consideration be given to increasing the counterparty limits for Lloyds Bank Group and Royal Bank of Scotland Group to £8 million each; and

(d) The possibility of widening the list of counterparties to include building societies be investigated by the Finance Advisory Group.

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ACTIONS FROM THE MEETING HELD ON 12.11.12			
Action	Description	Status and last updated 21.12.12	Contact Officer
ACTION 1	That a definition of a major planning application be provided to the Committee.	A “major” application is one involving 10 dwellings or more or, for non residential development, 1,000 sq m or more of floorspace. Where the number of units or floorspace is not specified the site area is 0.5 ha or more.	Alan Dyer
ACTION 2	That an updated investment list be circulated to the Committee with the minutes.	An email was sent on 23 November 2012.	Adrian Rowbotham

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Performance and Governance Committee 2012/13 – Work Plan

Topic	8 January 2013	12 March 2013	June 2013	September 2013	November 2013
Governance		Update of the Council's Anti-Fraud and Corruption Strategy to reflect the requirements of the Bribery Act 2010 (commencement Order 2011).	Annual review of Terms of Reference		
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Q2 Report	Internal Audit Plan Q3 Progress Report	Review of effectiveness of Internal Audit Annual Governance Statement Internal Audit Annual Report	Internal Audit Quarter 1 report	
Risk Management	Update		Risk Management Plan		
Accounts and External Audit	District Auditor's Annual Audit Letter	Annual Audit Plan		Draft Statement of Accounts Outcome of the External Audit	

Topic	8 January 2013	12 March 2013	June 2013	September 2013	November 2013
Treasury Management & Investment Strategy	Treasury Management Strategy 2012/13			Annual Treasury Management Report 2012-13	Treasury Management Update
Strategic Business & Finance Planning (Budget Strategy)					Budget Strategy
Budget Monitoring	November Figures	January Figures	Outturn Figures	July Figures	September figures
Property				Asset Management Property Review Update	
Performance Management		Performance Report	End of Year Results	Performance Report	Performance Report
Other	Finance Advisory Board Minutes (if met)	Finance Advisory Board Minutes (if met)	Finance Advisory Board Minutes (if met)	Finance Advisory Board Minutes (if met)	Annual Complaints Monitoring Report Finance Advisory Board Minutes (if met)

PERFORMANCE AND GOVERNANCE COMMITTEE – 8 JANUARY 2013

Internal Audit Progress Report – Quarter 2

Report of the: Director of Corporate Resources

Status: For Decision

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager Financial Services – Adrian Rowbotham

Recommendations:

That this Committee note the contents of the report and the progress made by the audit team in delivering the 2012/13 Annual Internal Audit Plan

Introduction

1 This report provides details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2012/13 and outcomes of final reports issued since the meeting of the committee in September 2012.

Summary of Issues in Report:

2 A summary of progress made towards achieving the assurance requirement is attached as Appendix A to this report. Appendix B provides a brief summary of each final audit reports issued since the September meeting of the committee. Appendix C sets out the descriptions of the audit opinions for audit reviews.

3 Appendix A sets out progress to end of November 2012 against each audit in the Annual Internal Audit Plan for 2012/13, approved by the Performance and Governance Committee on 30 March 2012. Members may note that seven planned reviews have been finalised to date, with a further nine work in progress. Thus a total of 16 reviews have either been completed or have commenced from this year's annual plan. This is equivalent to 64% of the original plan and 69% of the revised plan (see paragraph 4 below). The remaining reviews within the plan have been booked to commence in the fourth quarter.

Revisions to the Internal Audit Plan 2012/13

4 Members are requested to agree deferrals to the original audit plan in respect of the following two reviews, Review of Housing and Review of Sale of Assets. These items relates to numbers, 10 and 17 on the attached Appendix A. These deferrals are proposed in view of on-going changes within the Housing team. In respect of Sale of assets, this review may no longer be necessary as the anticipated changes are no longer taking place. However, it is not anticipated that the delay in conducting these reviews will impose undue risk to the Council. Hence the deferment of these reviews will

not have any significant impact on Internal Audit ability to provide satisfactory assurance for the Council in 2012/13.

Internal Audit Resources

5 The joint Audit, Risk and Anti-fraud Team have continued to work productively this year towards achieving service objectives and have made satisfactory progress in delivering an effective service for both Dartford Borough Council and Sevenoaks District Council. However, the Admin Assistant servicing both teams has been on long term sickness since August 2012. This has impacted on the team's resources, as professional staff has been diverted from their main tasks, in order to assist with progressing necessary admin tasks. This has had some impact on performance. So far we have continued to manage the service within existing resources. However, we will look to employ a temporary agency staff in the New Year, if necessary, to ensure adequate admin cover in the short term.

Key Implications

Financial

7 This report has no additional financial implications.

Community Impact and Outcomes

8 Not applicable.

Legal, Human Rights etc.

9 This report has no additional legal implications save those relating to the Data Protection and Freedom of Information Acts.

Resource (non-financial)

10 There are no additional resource requirements impacting on this report.

Equality

11 There are no additional equality implications for this report.

Sustainability Checklist

12 Not applicable

Value for Money

13 There is no value for money implication.

Conclusions

14 The Committee is requested to adopt the recommendations set out above.

Risk Assessment Statement

15 There is a risk that due to lost staff time, resources may not be adequate to complete the audit plan this year. Thus external resources may be bought in if required.

Sources of Information: Internal Audit Annual Plan for 2012/13

Contact Officer(s): Bami Cole Ext. 3023

Dr. Pav Ramewal
Corporate Resources Director

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Appendix A

PROGRESS AGAINST 2012/13 INTERNAL AUDIT PLAN						
		Final report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Possibly defer or cancel
1	Main Accounting System			x		
2	Budgetary Control *					
3	Cash & Bank Reconciliations *					
4	Treasury Management *					
5	Payroll	x				
6	Purchasing & Creditors				x	
7	Debtors *					
8	Council Tax/NNDR			x		
9	Council Tax/Housing Benefits		x			
10	Housing					x
11	Car Parking Income	x				
12	Contract Management Arrangements	x				
13	Environmental Services				x	
14	Savings Forecast	x				
15	Paralympics	x				
16	Annual Governance Statement *					
17	Sale of Assets					x
18	Impact of Budgetary Constraints	x				
19	Dunbrik *					
20	Project Delivery Arrangements *					
21	Data Quality/Accuracy			x		
22	Information Management	x				
23	Risk Management			x		
24	IT Implementation			x		
25	Procurement		x			
	Total	7	2	5	2	2

<u>* Note:</u> The remaining seven unallocated items above have been booked to commence in the fourth quarter.

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Review of Information Management **Issued: 13 September 2012**

Opinion: Adequate

The purpose of the review was to provide assurance to Management regarding the effectiveness of the Council's arrangements for managing information; including document retention policies and procedures, in order to determine fitness for purpose in relation to regulatory compliance, Council procedures and good practice.

To this effect, the following key risks and controls were examined;

1) The risk that the Council may not comply with relevant legislation, policies or good practice
2) The risk that policies, procedures and requirements may not be clear or effective
3) The risk that there may not be adequate skills or knowledge to manage the information effectively or appropriately
4) The risk that information storage may not be adequate, appropriate or safe
5) The risk that stored information may not be relevant or necessary; it may be obsolete, duplicated or out of date
6) The risk that the quality of information stored may be poor, insufficient or not fit for purpose
7) The risk that the records monitoring system which identifies the location, content and retention periods of stored data may not be up to date or accurate
8) The risk that data may not be accessible to answer Freedom of Information requests
9) The risk that storage space may be incurring unnecessary costs for the Council; income generation opportunities may be missed
10) The risk that the records and information management system may not be adequately disseminated or prepared for future planning
11) The risk that fraud and corruption may be undetected
12) The risk that opportunities to demonstrate efficiency or value for money may not be realised
13) Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in seven of the aspects examined, whilst six aspects were partially met. (Risks 1, 2,4,5,7 and 9)

The audit opinion was 'Adequate'. This meant that controls are in place and to varying degrees are complied with, but there are gaps in the process, which leave the service exposed to risks. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure for the Council.

The following Five recommendations were agreed with Management to address the areas where controls were partially met:

- All relevant guidance regarding information management should be made available to staff via the intranet. Staff should be advised via an e-mail where the relevant guides are located.
- The record log sheet for information management should be extended to cover all information that is placed into storage by Facilities on behalf of other departments. The information should be clearly labelled including contents, responsible officer and destruction dates. Information will not be stored without these details.

  The Facilities Manager should also consider emailing all service managers to remind them of their responsibilities regarding stored data and archiving. This could be done at the end of the financial or calendar year.

- A check list should be made available on the intranet to facilitate the process. Furthermore, a copy of the log should be held in the relevant service database and accessible to all relevant staff.
- The Facilities Manager should explore the possibility of further efficient storage space, for example the old Environmental Health room. Any documentation placed in this area must also have a record log.
- The Facilities Manager together with the Professional Services Manager should review the current storage facilities used at the Council offices and establish whether there is any rental potential which could generate and maximise the Council's income.

Members will be advised of the progress in implementing this recommendation in due course.

Review of SDC Payroll – 2012/13 **Issued: 19 September 2012**

Opinion: Good

The purpose of the review was to provide an assurance to management regarding effectiveness of the arrangements in place regarding the Council's payroll system. In particular, the accuracy, completeness and authenticity of payroll transactions, including overtime were examined.

To this effect, the following key risks and controls were examined;

1) Risk that the Council may not comply with relevant legislation, policies or good practice.
2) Risk that inaccurate, unauthorised or fraudulent payments may be made;
3) Risk that the payroll system may not correctly reconcile to the main accounting system resulting in potential misstatements in the accounts;
4) Risk that overtime may not be correctly applied, approved or appropriate.
5) Risk that fraud and corruption may be undetected
6) Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised
7) Risk that risk assessments may not be undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in all seven of the aspects examined.

The audit opinion is 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

No recommendations were proposed for Management action in view of the existing assessed low risk of the system, as it was felt that further additional controls would not be justifiable on grounds of value for money. No further update will therefore be provided to Members in respect of this review.

Review of SDC Impact of Budget Constraints **Issued: 19 September 2012**

Opinion: Satisfactory

The purpose of this review was to provide an assurance regarding the effectiveness of arrangements to deliver Budgetary Changes on the Council's activities within support service, whilst maintaining an appropriate level of service delivery. To this effect, the impact of the changes on operational performance, internal control and resilience were also examined.

The following key risks and controls were examined;

1) Risk that the Council may not comply with relevant legislation, policies or good practice.
2) Risk that services affected by budget efficiencies may not retain adequate levels of service resilience.
3) Risk that the Council may not continue to meet statutory duties.
4) Risk that service performance levels may not be maintained as far as possible.
5) Risk that budget constraints may have a negative effect on staff wellbeing and motivation.
6) Risk that fraud and corruption may be undetected.
7) Risk that opportunities to demonstrate efficiency or value for money may not be realised.
8) Risk that risk assessments are not adequately undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in five of the aspects examined. Controls were partially met for risks three aspect in respect of risks 1, 4 and 5.

The audit opinion was 'satisfactory'. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

The following recommendations were agreed with Management to further enhance controls in the areas where controls were partially met:

- Management to take action in respect of the way information is recoded regarding the potential risks and implications on Service Change Impact Assessments more consistent and informative going forward.

- Management Team should arrange for and consider a review of the work done by PAs and Secretaries, with the aim of reducing the non-essential workload. In particular, consideration should be given as to whether any support should continue to be provided for officer working groups, and officers below Head of Service level.

Members would be advised of the progress in implementing these recommendations in due course.

Review of SDC Parking Income **Issued: 15th November 2012**

Opinion: Satisfactory

The purpose of this review was to provide an assurance regarding the effectiveness of the arrangements in place for collecting and safeguarding the Council's Car Parking Income; including promptness and accuracy of banking and the recovery process.

To this effect, the following key risks and controls were examined;

1) Risk that the Council may not comply with relevant legislation, policies or good practice.
2) Risk that a policy and procedures for setting car park fees and charges may not be in place or followed.
3) Risk that cash collection machines are not adequately maintained and insured.
4) Risk that parking ticket income may not be collected and recorded correctly.
5) Risk that parking income may not be banked promptly.
6) Risk that fees from car park season tickets and on-street parking permits may not be accounted for correctly.
7) Risk that parking fines may not be collected promptly and recover action may be ineffective and in accordance with legislation.
8) Risk that parking fines may be written off without proper authority.
9) Risk that measures may not be taken to maximise income from parking ticket income.
10) Risk that fraud and corruption may be undetected
11) Risk that opportunities to demonstrate efficiency or value for money may not be realised
12) Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in ten of the aspects examined. Controls were partially met for risks 3 and 4.

The audit opinion was 'Satisfactory'. This means that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

The following two recommendations were agreed with Management to further enhance controls in respect of risks 3 and 4:

- The Senior Parking and Amenities Officer should liaise with the Insurance & Payroll Assistant to ensure that all parking machines are listed and takings are covered under the Council's insurance policy.
- The Principal Accountant should investigate further the possibility of banking only full money bags and the implications this might have on the reconciliations process and the potential risk to partly filled bags held by CSS facilitate the process. Additionally, the Principal account should determine whether any proposed changes would provide value for money for the Council.

Members would be advised of the progress in implementing these recommendations in due course.

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Appendix C

AUDIT OPINIONS - Definitions

Good	*Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*
Satisfactory	*Controls exist to enable the achievement of service objectives, obtain good corporate governance, and reduce significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to reduce potential risks.*
Adequate	*Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council exposed to some minor risks. There is therefore, a need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council.*
Unsatisfactory	*Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*
Unacceptable	*Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

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PERFORMANCE AND GOVERNANCE COMMITTEE – 8 JANUARY 2013

Risk Management Update

Report of the: Deputy Chief Executive and Director of Corporate Resources

Status: For Consideration

Executive Summary: This report provides Members with an update on the progress of implementing the Council's revised risk management framework, following the meeting of this Committee in June, at which Members were informed of plans to refresh and revise the framework.

This report supports the Key Aim of Corporate Performance Plan "Effective Management of Council Resources"

Portfolio Holder Cllr. Ramsay

Head of Service Adrian Rowbotham, Group Manager – Finance

Recommendation: It be RESOLVED that Members note the contents of this report.

Introduction

1 As part of its terms of reference the Performance and Governance Committee considers reports on the Council's risk management strategy and framework. Members were informed of proposals to simplify and strengthen the Council's risk management framework at their meeting on 12 June 2012. This report updates Members on the progress being made in implementation of the revised framework and further proposals to improve and embed the process across the Council going forward.

2 The Council's risk management strategy sets out that risk will be identified, assessed and managed both strategically and operationally. Strategic risks are those that may prevent the Council achieving its objectives as set out in the Corporate Plan 2009-12. Strategic risks are managed by Directors and Heads of Service with oversight and scrutiny being delivered by Performance and Governance Committee.

3 Operational risks are those that may prevent individual services meeting the objectives set out in their service plans. Operational risks are managed by Service Managers, supported by Heads of Service.

4 The Council also has processes in place to manage financial risks, project risks and health and safety risks that operate alongside the risk management framework. Financial risks are monitored by the Finance team and assessed and scrutinised by the Finance Advisory Group. Project risks are managed by the relevant Head of Service working closely with the project manager and are

subjected to DMT and MT monitoring, based on the type of project. Health and Safety risk assessments are overseen and coordinated by the Council's Environmental Health team, with Service Managers responsible for undertaking regular risks assessments and taking actions to mitigate those risks.

Risk Management Framework

5 Since June 2012 through its officers Risk Management Group the Council has developed a revised risk management framework for the Council. The revised framework takes account of best practice guidance as developed by ALARM (The Public Risk Management Association) and the views of senior management that helped to shape the framework to ensure it fits with the organisations culture and practices.

6 The revised risk management framework is attached at Appendix A to this report and is entitled 'Risk on a page'. The framework has been simplified to ensure the Council is able to focus on its key risks and provides the tools that are needed to demonstrate that the Council has a thorough understanding and strong basis to evaluate the risks it faces.

Risk Management Training

7 The facilitate the introduction and adoption of the revised risk management framework across the council risk management training workshops were designed and delivered to Members, Directors , Heads of Service and Service Managers.

8 The delivery of training to both Officers and Members was a key objective for improving the risk management framework for 2012/13. The Council's insurance provider, Zurich Municipal, assisted in providing the training required and the Council was able to access the training as part of its insurance contract at no additional cost.

9 In February 2012 training on the identification and assessment of strategic risks was delivered to Members. The feedback received from Members that attended indicated that the training was useful and well received.

10 In August 2012 training was delivered to Directors, all Heads of Service and Service Managers focusing on the identification and assessment of operational risks. As a result of the training all of the Council's operational risk registers were updated to provide for a robust assessment of the risks facing services to the achievement of their service objectives.

Operational Risk

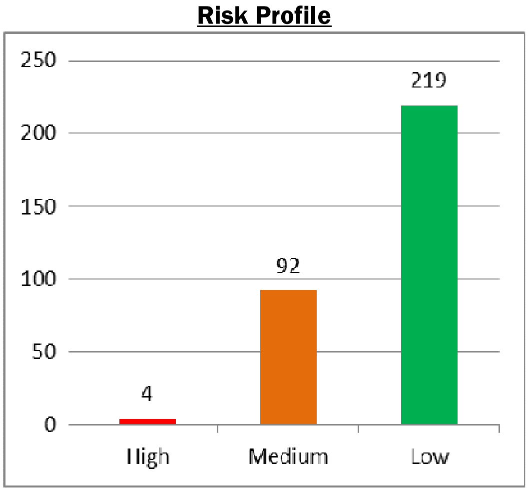
11 The assessment and mitigation of operational risks remains a key activity for Officers. Operational risk assessments are carried out by Service Managers annually and assess the risks of achieving the service objectives set out in their Service Plans.

12 Operational risks are assessed and scored on the same basis as strategic risks and are subject to a mid year review to ensure the risks remain relevant and are

accurately scored. Operational risk action plans are put in place where high risks are not adequately controlled.

13 For Members information the table below summarises the Council's current operational risk profile:

No. of Services risk assessed	25
No. of service objectives assessed	169
No. of operational risks identified	315
No. of risk action plans	11

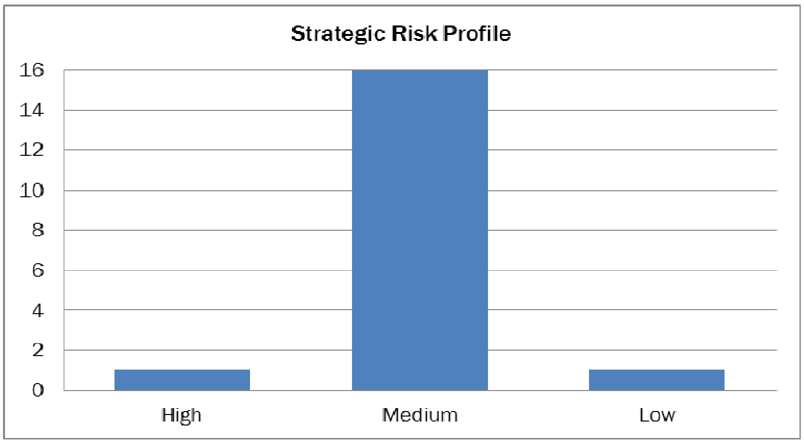


14 Officers, through the Risk Management Group, undertake an evaluation of each of the operational risk registers to identify if there are any recurring or significant risks. Where any such risks are identified the risk would be raised for consideration at a strategic level. No such operational risks were identified during 2012/13.

Strategic Risk

15 A summary of strategic risks, those risks that may prevent the Council achieving its objectives, is attached at Appendix B to this report. Risks are scored by looking at the likelihood of the risk occurring and the severity of the impact if the risk was realised. The Council chooses to use a 5 by 5 matrix to assess risks, multiplying the score for likelihood by the score for impact gives the overall risk score. A score of 5 or less indicates a low risk, a score between 6 and 14 indicates medium risk and a score of 15 or more indicates high risk.

16 For Members information the chart below summarises the Council's current strategic risk profile:



17 Each of the strategic risks is assigned to a lead officer to monitor and where appropriate take mitigating action against. Strategic risks are reviewed by lead officers whenever there is significant change in legislation or an incident or event which could have an impact on the Council.

18 To ensure strategic risk assessments remain relevant and up to date in the intervening periods the officers Risk Management Group, which meets every two months, maintains oversight and discusses any new or emerging risks that may become relevant. Where sufficient concern exists amongst the group a recommendation will be formed for the strategic risk register to be updated, including relevant mitigating action to address any perceived risks.

19 Officers continue to evaluate how each of the strategic risks interlink and identify actions that can be taken to further reduce the Council's exposure to high impact threats, whilst looking at ways to maximise potential opportunities

Risk Management programme for 2013/14

20 In early 2013 the Council will be carrying out a thorough review of its Strategic Risk Register. The review will take in to account the Council's new vision and promises and the updated Community Plan. In addition the review will reflect on the difficult economic environment the Council continues to operate in and the Government's legislative priorities that are due to be set out in their 'Mid-term review'.

21 It is proposed that a draft Strategic Risk Register will be presented to Performance & Governance Committee for their scrutiny and to ensure that Members views are taken in to account as strategic risks are identified and assessed. Taking in to account Members comments the Strategic Risk Register will be reported to Cabinet for adoption.

22 Operational risk assessments will continue to be carried out by Officers during the first quarter of 2013/14, on completion of their service plans.

Key Implications

Financial

23 None

Community Impact and Outcomes

24 A robust risk management process enhances the Council's ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community.

Legal, Human Rights etc.

25 None

Resource (non-financial)

26 None

Value For Money

27 A robust risk management process will enhance the Council's ability to minimise waste and inefficiencies whilst maximising value for money.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	There are no equality impacts arising from this report.
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

RISK ASSESSMENT STATEMENT

28 This report highlights the steps being taken to implement the Council's risk management strategy and framework. Strategic risks are being actively managed and where appropriate mitigating controls are in place or being developed to minimise threats whilst maximising available opportunities.

Appendices Appendix A – Strategic Risk Register

Background Papers: None

Contact Officer(s): Bami Cole, Ext. 01322 343023

Lee Banks, Ext. 7161

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources

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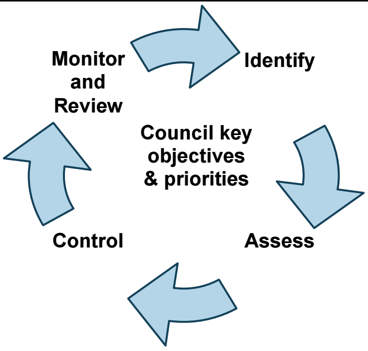
Risk-on-a-page!

PROCESS OVERVIEW



- Identify key Strategic or Service objectives and priorities.
- Manage threats that may hinder delivery of priorities.
- Maximise opportunities that will help to deliver them.
- Monitor progress and impact of actions
- Process is a continuous cycle.

1. Identify Key Objectives and Priorities

• What could go wrong?	• Use available sources/documents, e.g. corporate plan, service plan objectives to identify priorities etc.
• Ensure risks are structured	• E.g., “If we do not review and manage our budget, then there is a risk that we will overspend.”
• What type of risk is it?	• Corporate, operational, service, project or partnership?
• What category is it?	• Financial, political, economic, reputation, customer/citizen, social, technological, performance, legislative, regulatory, environmental, competitive, partnership.

2. Assess and Quantify Threats and Opportunities

- How likely is it to happen?
- What would the impact be?
- Likelihood x Impact = Risk rating

Key: 1-5 = Low
6-11 = Medium-Low
12-14 = Medium-High
15+ = High

Likelihood

Certain (5)	Low (5)	Medium-Low (10)	High (15)	High (20)	High (25)
Very likely (4)	Low (4)	Medium-Low (8)	Medium-High (12)	High (16)	High (20)
Possible (3)	Low (3)	Medium-Low (6)	Medium-Low (9)	Medium-High (12)	High (15)
Unlikely (2)	Low (2)	Low (4)	Medium-Low (6)	Medium-Low (8)	Medium-Low (10)
Very Unlikely (1)	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
	No impact (1)	**Minor (2)**	**Significant (3)**	**Serious (4)**	**Major (5)**

Impact

3. Identify Additional Control Measures

- What should be done to reduce the risk?
- Who owns the risk?
- What else do you need to do about it?

Level of Risk	Level of Concern	Recommended review pattern	Approach option(s) available	Other actions required
High	Very concerned	1 – 2 months	Terminate Transfer Treat	Report to MT and P& G .
Medium-High	Concerned	3 – 4 months	Terminate Transfer Treat	Report to MT and P&G
Medium-Low	Tolerate	5 – 6 months	Terminate Transfer Treat Tolerate	If accepted, must have contingency plans in place. Review at 1:1 with line manager.
Low	Content	12 - months	Tolerate	Treat, only if cost effective

4. Monitor and Review

- Are the controls effective? → • If Yes, no need for further immediate action
- Has the risk changed? → • If Yes, determine whether controls are appropriate
- Is there something new? → • If Yes, risk assess and re-rate risk level

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Strategic Risk - Net Scores Report 2011/12

Sevenoaks DISTRICT COUNCIL

Rows are sorted by Risk Score, Code

Code	Title	Description	Assessment	Risk Score	Status
SR 06	Management of the Council's Human Resources	Failure to ensure that workforce capacity and wellbeing is maintained to deliver high quality services in a difficult financial environment for the Council.	4x4 High	16	
SR 01	Achievement of the Sevenoaks District Sustainable Community Plan	Failure to fulfil strategic ambitions through non-delivery of actions and targets within the Community Plan	4x3 Medium	12	
SR 04	Effective management of the Pension scheme	Failure to have proper contingency arrangements in place to address under performance of the Kent County Council pension fund	4x3 Medium	12	
SR 09	Understanding the needs and expectations of the community in the re-design of Council services	Failure to make adequate arrangements to identify the needs of the community (and customers) when re-designing services.	4x3 Medium	12	
SR 10	Achievement of the key objectives of the Council's IT Strategy and Plan	Failure to identify technology that would benefit the Council to support and enable the continuous improvement of Council services	4x3 Medium	12	
SR 11	Maximising the benefit of shared service and partnership working	Failure to enter in to shared service and partnership opportunities that would be beneficial to the Council and the community	4x3 Medium	12	
SR 16	Knowledge and information management	Failure to ensure that the Council makes best use of and preserves the information and knowledge that it holds	4x3 Medium	12	
SR 02	Management of the Council's financial resources	Failure to deliver a sustainable budget to meet the Council's key priorities	5x2 Medium	10	
SR 17	Impact of a major incident or disaster	Failure to ensure arrangements are in place to meet the Councils statutory obligations to respond to a major emergency impacting on the local community and/or the Council's operations (Civil Contingencies Act 2004)	5x2 Medium	10	
SR 18	Environmental sustainability	Failure to implement objectives to adapt to and mitigate the effects of climate change	3x3 Medium	9	

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Agenda Item 8

Agenda Item 8

Code	Title	Description	Assessment	Risk Score	Status
SR 03	Effective management of the Council's investments	Failure to maximise investment returns within the terms of the Council's Treasury Management Policy	4x2 Medium	8	
SR 05	Effective management of the Council's fixed assets	Failure to have robust arrangements in place for the management of the Council's fixed assets	4x2 Medium	8	
SR 07	Governance arrangements	Failure to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement	4x2 Medium	8	
SR 08	Prevention of fraud, corruption and error	Failure to ensure that effective arrangements are in place to minimise the risk of financial loss to the Council	4x2 Medium	8	
SR 13	Complying with legislative changes	Failure to adjust to and cope with changes in legislation	4x2 Medium	8	
SR 14	Adjusting to a changing economic environment	Failure to ensure arrangements are in place to respond effectively to changes in the economic climate. Minimising negative impacts and maximising benefits.	4x2 Medium	8	
SR 15	Competitive service performance	Failure to ensure Council services, including shared services are high performing, cost effective and fit for purpose	4x2 Medium	8	
SR 12	National and Local Politics	The risk of failure to identify opportunities and challenges in the Coalition Governments national agenda, including the impact on the local political climate	5x1 Low	5	

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TREASURY MANAGEMENT STRATEGY 2013/14

Performance and Governance Committee – 8 January 2013

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Decision
Also considered by:	Finance Advisory Group - 23 January 2013
	Cabinet - 7 February 2013
	Council - 19 February 2013
Key Decision:	No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Members' particular attention is drawn to paragraphs 57-59 of the report, which deal with changes to the investment criteria in the light of recent credit rating downgrades.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder	Cllr. Ramsay
Head of Service	Group Manager – Financial Services – Mr Adrian Rowbotham

Recommendation to Performance and Governance Committee:

That consideration is given to amending the 'other creditworthiness criteria' in line with those set out in paragraphs 57-59 of this report.

Recommendation to Finance Advisory Group:

That consideration is given to amending the 'other creditworthiness criteria' in line with those set out in paragraphs 57-59 of this report.

Recommendation to Cabinet:

That, subject to the views of the Finance Advisory Group and Performance and Governance Committee, Cabinet recommends Council to approve the Treasury Management Strategy Statement set out in this report.

Reason for recommendations: To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

Background

1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3. CIPFA defines treasury management 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. "

Introduction

<u>Reporting requirements</u>

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Finance Advisory Group and the Performance and Governance Committee.

5. Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

   - the capital plans (including prudential indicators);

- a Minimum Revenue Provision Policy (MRP) (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

6. A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

7. An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

<u>Treasury Management Strategy for 2013/14</u>

8. The strategy for 2013/14 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy; and
- creditworthiness policy.

9. These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

<u>Training</u>

10. The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Training was last undertaken in 2010 and further training will be arranged as required.

11. The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

12. The Council uses Sector Treasury Services Limited (Sector) as its external treasury management advisors.

13. 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.

14. 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 subjected to review.

Capital Issues

The Capital Prudential Indicators 2013/14 – 2015/16

15. The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

16. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	2,348	1,423	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

17. Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

18. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	2,348	1,423	***	***	***
Financed by:					
Capital receipts	119	197	***	***	***
Capital grants	1,085	396	***	***	***
Capital reserves	330	330	***	***	***
Revenue	814	500	***	***	***
Net financing need for the year	**2,348**	**1,423**	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The Council's Borrowing Need (the Capital Financing Requirement)

19. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

20. The CFR does not increase indefinitely, as the minimum revenue position (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

21. The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.2m of such schemes within the CFR.

22. The Council is asked to approve the CFR projections below:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000

Capital Financing Requirement					
Total CFR	185	164	143	122	101
Movement in CFR	-21	-21	-21	-21	-21

Movement in CFR represented by:					
Net financing need for the year (above)					
Less MRP/VRP and other financing movements	-21	-21	-21	-21	-21
Movement in CFR	**-21**	**-21**	**-21**	**-21**	**-21**

Note:- The MRP / VRP includes finance lease annual principal payments

Minimum Revenue Provision (MRP) Policy Statement

23. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

24. CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

25. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR.

26. These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

27. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Depreciation method – MRP will follow standard depreciation accounting procedures. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

Core Funds and Expected Investment Balances

28. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will

have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Fund balances / reserves	19,810	***	***	***	***
Capital receipts	708	***	***	***	***
Provisions	1,943	***	***	***	***
Other	0	***	***	***	***
Total core funds	**22,461**	***	***	***	***
Working capital*	22,461	***	***	***	***
Under/over borrowing	0	***	***	***	***
Expected investments	**22,461**	***	***	***	***

*Working capital balances shown are estimated year end; these may be higher mid year

*** Figures to be added to Cabinet report when Capital Programme is completed

Affordability Prudential Indicators

29. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of Financing Costs to Net Revenue Stream

30. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs, net of investment income) against the net revenue stream.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	-3.00%	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

The estimates of financing costs include current commitments and the proposals in the budget report.

Incremental Impact of Capital Investment Decisions on Council Tax.

31. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council tax band D	£0.18	***	***	***	***

*** Figures to be added to Cabinet report when Capital Programme is completed

Treasury Management Issues

32. The capital expenditure plans set out above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

33. The Council's treasury portfolio position at 17 December 2012 appears in Appendix A.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

34. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

The Authorised Limit for external debt

35. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

36. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

37. The Council is asked to approve the following Authorised Limit:

Authorised limit	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

Prospects for Interest Rates

38. The Council has appointed Sector Treasury Services Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix B draws together a number of current City forecasts for short term and longer fixed interest rates. Appendix C contains Sector's latest economic background report.

39. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

40. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

41. This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

42. It is anticipated that there will be no capital borrowings required during 2013/14.

Annual Investment Strategy

<u>Investment Policy</u>

43. The Council's investment policy has regard to the Department of Communities and Local Government (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

44. In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

45. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps (CDS)" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.

46. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

47. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

48. The intention of the strategy is to provide security of investment and minimisation of risk.

49. Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set below.

Creditworthiness Policy

50. This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following 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.

51. 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 coded bands which

indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- 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

52. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

53. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A, viability rating of A- and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

54. All credit ratings will be monitored regularly. 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 Council's lending list.

55. 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 supporting government.

<u>Country limits</u>

56. The Council has determined that it will only use approved counterparties from the UK or the EU which also have a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

<u>Other Creditworthiness Issues</u>

57. The Council's current investment policy further limits the one proposed by Sector as follows:-

a. Maximum investment period of 1 year.

b. Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.

c. Total investments in any one foreign country are limited to 15% of the total fund.

d. Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts.

e. UK-based institutions to be used as a first preference.

58. In the last cycle of meetings, officers have suggested a change to some of these limits in order to provide more flexibility when placing investments and to take greater advantage of the better rates offered by the nationalised or semi-nationalised UK banks. The proposal for the 2013/14 investment policy is as follows:

a. Maximum investment period of 1 year.

b. Investments are limited to 40% of the total fund to any single institution or institutions within a group of companies

c. Total investments in any one foreign country are limited to 15% of the total fund, but UK-based institutions to be used as first preference..

d. Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts except for Lloyds Banking Group plc and Royal Bank of Scotland Group plc, where the limits will be £8m for each with no distinction between fixed deposits and call accounts.

e. If the Council's own banker, Barclays, falls below Sector's minimum credit rating requirements, it will nevertheless continue to be used, although balances will be minimised in both monetary size and duration.

f. Building societies that do not meet Sector's minimum credit rating requirements will nevertheless be included provided they have assets in excess of £9bn. At the time of writing this report, the relevant societies are Yorkshire, Coventry, Skipton and Leeds (the Nationwide is already included by virtue of its credit ratings). The maximum investment per counterparty is limited to £2m and the maximum duration of any single investment 3 months.

59. These proposed changes are to be considered by the Finance Advisory Group at its meeting on 23 January 2013, but the views of this Committee would also be welcome.

Investment Strategy

59. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

60. Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

- 2012/2013 0.50%
- 2013/2014 0.50%
- 2014/2015 0.75%
- 2015/2016 1.75%

61. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

62. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

Icelandic Bank Investments

63. This authority currently has an investment of £1m frozen in Landsbanki Islands hf. The investment was placed on 25 June 2007 at 6.32%, to mature on 25 June 2009.

64. The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments.

65. At the current time, the process of recovering assets is still ongoing with the administrators. Investments outstanding with the two Iceland–domiciled banks (Glitnir Bank hf and Landsbanki Islands hf) have been subject to decisions of the Icelandic Courts. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late 2011, the Administrators have now commenced the process of dividend payments in respect of both of these banks.

End of Year Investment Report

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

Scheme of delegation

67. The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

Role of the Section 151 officer

68. As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

Key Implications

Financial

69. The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

70. There are financial implications arising from the restriction of the Council's lending list in that an inferior rate of interest may have to be accepted on a particular investment if some of the smaller and lower-rated institutions have been removed from the list.

Community Impact and Outcomes

71. There are no community impacts arising from this report.

Legal, Human Rights etc.

72. This report satisfies the requirements of the Local Government Act 2003 and supporting regulations plus the Council's Financial Procedure Rules which both require the preparation of an annual treasury strategy.

Equality Impacts

73.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	The recommendation is concerned with investment management and does not directly impact upon a service provided to the community.
b. Does the decision being made or recommended through this paper have the potential to	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
promote equality of opportunity?		
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		No mitigating steps are required.

Conclusions

74. The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

75. In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy must be considered by Council and this is planned for its meeting on 19 February 2013. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Risk Assessment Statement

76. Treasury Management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and

- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management.

77. This report proposes new investment limits. The movement towards having a restricted lending list of better quality institutions but higher individual limits with those institutions reduces the chances of a default. But if a default did occur, the potential loss would be greater. Previously, the preference was to have smaller investments with a greater range of institutions.

78. These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Sources of Information:	Existing treasury counterparty list Treasury Management Strategy Statement for 2013/14 provided by Sector Treasury Services Ltd. CIPFA – Prudential Code on Treasury Management ODPM (now DCLG) – Guidance on Local Government Investments (March 2004) CIPFA Treasury Management in the Public Services Code of Practice (Revised 2009,2010 & 2011)
Contact Officer(s):	Roy Parsons ext.7204

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources

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SEVENOAKS DISTRICT COUNCIL

List of Investments as at:- 17-Dec-12 (in alphabetical order)

Reference	Name	Rating	Country	Group	Amount	Start Date	Comm Rate	End Date	Curr Rate	Terms	Broker
	Santander UK plc (Business Reserve A/C)	A+	U.K.	Santander	0	01-Apr-99			0.50000%	Variable	Direct
	Santander UK plc (Money Market A/C)	A+	U.K.	Santander	0	09-Oct-06			0.50000%	Variable	Direct
	Clydesdale Bank plc (Base Tracker Plus - 15 Day)	A	U.K.	NAB	0	10-Sep-10			0.65000%	Variable	Direct
	Barclays Bank plc (Business Premium A/C)	A	U.K.		1,341,000	01-Oct-11			0.45000%	Variable	Direct
	National Westminster Bank plc (Liquidity Select)	A	U.K.	RBS	1,000,000	07-Oct-11			0.80000%	Variable	Direct
	Ignis Liquidity Fund (Money Market Fund)	AAA	U.K.		3,000,000	11-May-12				Variable	Direct
	Insight Liquidity Fund (Money Market Fund)	AAA	U.K.		3,000,000	11-May-12				Variable	Direct
IP1078	Aberdeen City Council		U.K.		2,000,000	29-Nov-12	0.32000%	29-May-13		6 Months	Sterling
IP1014	Bank of Scotland plc	A	U.K.	Lloyds/HBOS	1,000,000	14-Feb-12	2.50000%	12-Feb-13		1 Year	Direct
IP1018	Bank of Scotland plc	A	U.K.	Lloyds/HBOS	1,000,000	24-Feb-12	2.50000%	22-Feb-13		1 Year	Direct
IP1072	Barclays Bank plc	A	U.K.		1,000,000	02-Nov-12	0.47000%	04-Feb-13		3 Months	Direct
IP1076	Barclays Bank plc	A	U.K.		1,000,000	15-Nov-12	0.46000%	15-Feb-13		3 Months	Direct
IP1065	Greater London Authority		U.K.		4,000,000	15-Oct-12	0.26000%	15-Jan-13		3 Months	Sterling
IP1079	Leeds City Council		U.K.		1,000,000	14-Dec-12	0.34000%	15-Mar-13		3 Months	Tradition
IP1049	Lloyds TSB Bank plc	A	U.K.	Lloyds/HBOS	1,000,000	25-Jul-12	3.00000%	04-Jul-13		1 Year	Direct
IP1069	Lloyds TSB Bank plc	A	U.K.	Lloyds/HBOS	1,000,000	31-Oct-12	2.25000%	30-Oct-13		1 Year	Direct
IP1073	Lloyds TSB Bank plc	A	U.K.	Lloyds/HBOS	1,000,000	05-Nov-12	2.25000%	04-Nov-13		1 Year	Direct
IP1026	National Westminster Bank plc	A	U.K.	RBS	2,000,000	27-Apr-12	1.00000%	22-May-13	2.25000%	1 Year	Direct
IP1046	National Westminster Bank plc	A	U.K.	RBS	2,000,000	18-Jul-12	1.00000%	21-Aug-13	2.25000%	1 Year	Direct
IP1064	Nationwide Building Society	A+	U.K.		1,000,000	09-Oct-12	0.47000%	09-Jan-13		3 Months	Tradition
IP1067	Nationwide Building Society	A+	U.K.		2,000,000	23-Oct-12	0.45000%	23-Jan-13		3 Months	Sterling
IP1071	Nationwide Building Society	A+	U.K.		1,000,000	01-Nov-12	0.45000%	01-Feb-13		3 Months	Tradition
IP1077	Nationwide Building Society	A+	U.K.		1,000,000	28-Nov-12	0.44000%	28-Feb-13		3 Months	R P Martin
IP1080	UK Debt Management Office		U.K.		1,000,000	17-Dec-12	0.25000%	02-Jan-13		16 days	Direct
IP1051	Ulster Bank Ltd	A-	U.K.	RBS	1,000,000	27-Jul-12	1.20000%	28-Jan-13		6 Months	R P Martin
	Total Invested				33,341,000						
	Matured Investment										
IP813	Landsbanki Islands hf		Iceland		504,700	25-Jun-07	6.32000%	25-Jun-09		2 Years	R P Martin
	Other Loan										
	Sevenoaks Leisure Limited				250,000	29-Apr-08	7.00000%	31-Mar-18		10 Years	Direct

SEVENOAKS DISTRICT COUNCIL

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	Other Loan										
	Sevenoaks Leisure Limited				250,000	29-Apr-08	7.00000%	31-Mar-18		10 Years	Direct

APPENDIX B: Interest Rate Forecasts 2013 – 2016

Sector's Interest Rate View	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.40%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%	1.90%
6 Month LIBID	0.56%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%	2.20%
12 Month LIBID	0.92%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%	2.40%
5yr PWLB Rate	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PWLB Rate	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PWLB Rate	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PWLB Rate	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.66%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.66%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.64%	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.64%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	3.88%	4.00%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	3.88%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.04%	4.10%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.04%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

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APPENDIX C: Economic Background

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 1% in quarter 3 in unlikely to prove anything more than a washing out of the dip in the previous quarter before a return to weak, or even negative, growth in quarter 4.

The Eurozone sovereign debt crisis has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request (for a national bailout) and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high, unless the Eurozone were to accept a major write down of Greek debt. The possibility of a write down has now been raised by the German Chancellor, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it could be in risk of heading for a hard landing rather than a gradual slow down.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended in the autumn statement over a longer period than the original four years. Achieving this new extended time frame will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period. It was important for the Government to retain investor confidence in UK gilts so there was little room for it to change course other than to move back the timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;
- stimulus packages failing to stimulate growth;
- elections due in Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.
- the potential for action to curtail the Iranian nuclear programme
- the situation in Syria deteriorating and impacting other countries in the Middle East

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

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. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields
- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held

- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone

- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth

- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's Aaa rating at the start of 2013).

APPENDIX D - 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

Term deposits within the UK

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	–	In-house
Term deposits – local authorities	–	In-house
Term deposits – banks and building societies	Sector colour code 'Green' or better	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum 'High' Credit Criteria	**Use**
UK part nationalised banks	Sector colour code 'Blue'	In-house
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA- or better and Sector colour code 'Green' or better	In-house

Others

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating AA- or better and Sector colour code 'Green' or better	In-house
UK Government Gilts	UK sovereign rating AA- or better	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
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 AA- or better	In-house buy and hold
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating AA- or better	In house

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
Government Liquidity Funds	Long-term rating AAA Volatility rating MR1+	In-house
Money Market Funds	Long-term rating AAA Volatility rating MR1+	In-house
Enhanced cash funds	Long-term rating AAA Volatility rating MR1+	In-house
Gilt Funds	Long-term rating AAA Volatility rating MR1+	In-house

NON-SPECIFIED INVESTMENTS: As the Council has a maximum investment period of one year, many of the investment instruments previously listed in this category are no longer applicable

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities (i.e. structured deposits)	Sovereign rating AA- or better and Sector colour code ‘Green’ or better	In-house	25	1 year

APPENDIX E - Approved countries for investments

Based on lowest available rating

AAA
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Sweden
- Switzerland
- U.K.

AA+
- France

AA
- None

AA-
- Belgium

APPENDIX F - Treasury management scheme of delegation

Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

Performance and Governance Committee

- reviewing the treasury management policy and procedures and making recommendations to Cabinet.

APPENDIX G - The treasury management role of the section 151 officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

BUDGET MONITORING – NOVEMBER 2012

Performance & Governance Committee – 8 January 2013

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Information
Key Decision:	No

This report supports all the Council's key themes and objectives

Portfolio Holder	Cllr. Ramsey
Head of Service	Group Manager Financial Services – Adrian Rowbotham

Recommendation to Performance and Governance Committee: That the report be noted.

Introduction

Overall Financial Position

1 Eight months into the year the results to date show an overall unfavourable variance of £119,000.

2 The year-end position is forecast to be £7,000 better than budget.

Key Issues for the year to date

3 Income – investment income is performing above target and is forecast to be better than budgeted at the year-end. This is due to higher than estimated balances and slightly higher rates being achieved during the year so far, and a favourable forecast is shown to reflect this position.

4 Looking at the other main income sources, the position still remains difficult. Building Control, Land Charges, Car Parking and Planning fees currently show adverse variances for the year to date.

5 Pay costs – the actual expenditure is less than budget due to some vacancies during the year and staffing restructures following the departure of senior managers..

6 Other – Direct Services' results currently show a negative variance of £57,000 compared to budget.

Year End Forecast

7 The year-end position is forecast to be £7,000 better than budget which is similar to the forecast at the end of October.

8 Extra investment income is the largest favourable variance. Additional income is also expected from office rentals and council tax court costs. A further favourable variance is forecast for audit fees.

9 Income from Building Control, Land Charges, Car Parking and Planning fees are all forecast to be less than the budget for the year.

10 The operators of the Swanley and Sevenoaks markets went into voluntary liquidation in August, leaving two months unpaid rent which is included in the year-end forecast. The market operation is now being re-tendered.

Risk areas

11 The current economic situation continues to have a real and potential impact on the Council's finances:

- The investment strategy is constantly under review in light of changing long term credit ratings which affects the number of organisations the Council can invest in;
- property related income such as Development Control (particularly pre-application fees and s106 monitoring), Building Control, Land Charges and Capital Receipts remain vulnerable;
- the Benefits workload is continuing at a higher level than before the recession, which is having an impact on processing times (though an action plan is in place to improve performance);
- Council Tax collection rates, though currently in line with the previous year, could be affected by increased unemployment and squeezed household incomes;
- The liquidation of the markets operator will result in the markets operation being re-tendered; and
- Planned savings through the generation of income, particularly from new partnership working, remain risk areas for the current and for future years.

Key Implications

<u>Financial</u>

The financial implications are included elsewhere in the report.

<u>Community Impact and Outcomes</u>

None.

<u>Legal, Human Rights etc.</u>

None.

Risk Assessment Statement

Detailed budget monitoring is completed on a monthly basis where all variances over £10,000 are explained. Future risk items are also identified.

Appendices	Appendix A – Budget Monitoring Sheets for November 2012
Background Papers:	Budget 2012/13 Budget Monitoring Reports for 12/13 Financial System
Contact Officer(s):	Helen Martin x7483

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources

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2. Overall Summary

November 12 - Final

	Period Budget £'000	Period Actual £'000	Period Variance £'000	Period Variance %	Y-T-D Budget £'000	Y-T-D Actual £'000	Y-T-D Variance £'000	Y-T-D Variance %	Annual Budget £'000	Annual Forecast (including Accruals) £'000	Annual Variance £'000	2011/12 Actual £'000
Community and Planning												
Community Development	59	93	- 34	-58.7	645	624	21	3.2	975	967	8	1,140
Development Services	106	123	- 17	-15.7	840	884	- 44	-5.2	1,299	1,299	- 0	1,413
Environmental and Operations	198	265	- 67	-34.0	1,946	2,190	- 244	-12.6	2,709	2,969	- 260	2,528
Housing and Communications	51	56	- 5	-9.6	562	569	- 7	-1.3	872	862	10	944
Total Community and Planning	**414**	**537**	- 123	-29.8	**3,993**	**4,268**	- 275	-6.9	**5,855**	**6,097**	- 242	**6,025**
Corporate Resources												
Finance and Human Resources	302	360	- 58	-19.2	2,159	2,200	- 42	-1.9	3,961	3,842	119	4,516
IT and Facilities Management	157	142	15	9.7	1,332	1,216	116	8.7	2,018	2,005	13	1,595
Legal and Democratic Services	91	92	- 1	-0.6	1,346	1,290	56	4.2	1,918	1,915	3	1,363
Total Corporate Resources	**550**	**593**	- 43	-7.8	**4,837**	**4,706**	131	2.7	**7,897**	**7,762**	135	**7,473**
NET EXPENDITURE (1)	**964**	**1,131**	- 166	-17.3	**8,829**	**8,974**	- 144	-1.6	**13,752**	**13,859**	- 107	**13,498**
Adjustments to reconcile to Amount to be met from Reserves												
Direct Services Trading Accounts	2	19	- 17	- 850.0	- 109	- 52	- 57	- 52.3	- 64	- 64	-	21
Capital charges outside General Fund	- 4	- 4	- 0	- 0.0	- 36	- 36	- 0	- 0.0	- 54	- 54	-	- 47
Support Services outside General Fund	- 16	- 16	-	-	- 125	- 125	-	-	- 191	- 191	-	- 197
Redundancy Costs - all	-	-	-	-	-	-	-	-	-	-	-	-
NET EXPENDITURE (2)	946	1,130	- 183	-19.4	8,560	8,761	- 201	- 2.4	13,443	13,550	- 107	13,275
Government Grant	- 387	- 387	-	0.0	- 3,097	- 3,097	-	-	- 4,646	- 4,646	-	- 5,141
Council Tax Requirement - SDC	- 771	- 771	-	0.0	- 6,167	- 6,167	-	-	- 9,251	- 9,251	-	- 9,199
NET EXPENDITURE (3)	**- 212**	**- 29**	**- 183**	**86.5**	**- 705**	**- 504**	**- 201**	**- 28.6**	**- 454**	**- 347**	**- 107**	**- 1,065**
Summary including investment income												
Net Expenditure	*- 212*	*- 29*	*- 183*	*86.5*	*- 705*	*- 504*	*- 201*	*- 28.6*	*- 454*	*- 347*	*- 107*	*- 1,065*
Investment Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Investment Income	*- 18*	*- 26*	*8*	*-42.7*	*- 131*	*- 214*	*83*	*63.1*	*- 173*	*- 287*	*114*	*- 308*
Overall total	*- 230*	*- 55*	*- 176*	*- 76.3*	*- 836*	*- 718*	*- 119*	*- 14.2*	*- 627*	*- 634*	*6*	*- 1,373*
Planned appropriation (from)/to Reserves									627	627	-	-
Supplementary appropriation from Reserves									-	-	-	-
												-
Surplus									-	*- 7*	*6*	*- 1,373*

Reserves

	31/03/12	Movement in month	Cumulative to date	Balance as at 30/11/12	31/3/13 budget	31/3/13 forecast
	£000	£000	£000	£000	£000	£000
Provisions						
Edenbridge Relief Road Compensation	1,546	-1,546	-1,546	0	0	0
Accumulated Absences	152			152	152	152
Municipal Mutual Insurance (MMI)	211			211	0	211
Others	34			34	0	0
	1,943	-1,546	-1,546	397	152	363
Capital Receipts(Gross)	708	-1	241	949	1,314	1,564
Note: this balance will reduce at year end as the receipts are used to finance capital expenditure						
Earmarked Reserves						
Financial Plan	5,812			5,812	5,296	5,224
Budget Stabilisation	2,765			2,765	3,495	3,654
New Homes Bonus	215			215	1,588	741
Housing Benefit subsidy	1,351			1,351	1,102	1,261
Asset Maintenance	1,000			1,000	1,000	1,000
First Time Sewerage	915			915	715	815
Vehicle Renewal	292			292	564	292
Reorganisation (previously Termination)	478			478	499	478
LDF	565		-39	526	428	416
Community Development	470		-41	429	418	470
Carry Forward Items	222		-50	172	341	222
Action and Development	296			296	300	295
Vehicle Insurance	287			287	264	287
Pension Valuation	349			349		628
Big Community Fund	103		-9	94		0
Rent Deposit Guarantees	181	-56	-56	125	179	82
Local Strategic Partnership	81		-5	76	111	82
Homelessness Prevention	134			134		134
IT Asset Maintenance	121			121		0
Others	461	2	-2	459	424	414
	16,098	-54	-202	15,896	16,724	16,495
General Fund						
Required Minimum	1,500				1,500	1,500
Available Balance	2,213				2,213	2,213
	3,713				3,713	3,713
TOTAL	**22,462**				**21,903**	**22,135**

9. Capital

November 12 - Final

		Period Budget £'000	Period Actual £'000	Period Variance £'000	Period Variance %	Y-T-D Budget £'000	Y-T-D Actual £'000	Y-T-D Variance £'000	Y-T-D Variance %	Annual Budget £'000	Annual Forecast (including Accruals) £'000	Annual Variance £'000
COMMDEV	Big Community Fund - Capital	-	-	-	-	-	27	- 27	-	-	-	-
COMMDEV	Parish Projects	-	-	-	-	-	-	-	-	71	71	-
ENVOPS	Vehicle Purchases	76	37	39	51.5	540	73	466	86.4	844	844	-
FINSERV	Horton Kirby Village Hall	-	-	-	-	-	1	- 1	-	-	-	-
FINSERV	Argyle Road Office Accommondation	1	2	- 1	- 113.0	2	3	- 0	- 9.1	7	7	-
HOUSING	Improvement Grants	51	48	3	5.8	408	176	233	57.0	612	512	100
HOUSING	WKHA Adaps for Disab Financing Costs Advances	21	54	- 32	- 152.1	171	105	66	38.7	256	256	-
HOUSING	SDC - HMO Grants	-	-	-	-	-	10	- 10	-	-	-	-
HOUSING	RHPCG 10-11 SDC	-	-	-	-	-	2	- 2	-	-	-	-
LEGAL	Sevenoaks Town Centre	20	- 1	21	103.3	80	43	37	46.4	150	150	-
LEGAL	Modern Govt Document Management System	1	-	1	100.0	12	8	4	31.9	16	16	-
LEGAL	Police Co-Location	-	21	- 21	-	200	169	31	15.3	200	200	-
		171	**161**	**9**	**5.4**	**1,413**	**617**	**796**	**56.3**	**2,157**	**2,057**	**100**

Improvement Grants budget shown net of Government grant.

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