SEVENOAKS DISTRICT COUNCIL

FINANCE ADVISORY GROUP

25 January 2012 at 9.30 am in the
Conference Room, Argyle Road, Sevenoaks

AGENDA

Membership:

Chairman: Cllr. Cllr. Ramsay

Cllrs: Cllr. Firth, Cllr. Fittock, Cllr. Grint, Cllr. McGarvey and Cllr. Scholey

1.	**Apologies for absence**		
2.	**Notes of meeting of the Group held on**	(Pages 1 - 6)	
3.	**Declarations of Interest**		
4.	**Matters Arising including actions from last meeting**	(Pages 7 - 8)	Tricia Marshall
5.	**Kent County Council Superannuation Fund - Investments**	(Pages 9 - 42)	Adrian Rowbotham
6.	**Treasury Management Strategy 2012/13**	(Pages 43 - 70)	Roy Parsons
7.	**Costs and Savings in Partnership Working**	(Pages 71 - 74)	Tricia Marshall
8.	**Risks and Assumptions for Budget 2012/13**	(Pages 75 - 84)	Tricia Marshall
9.	**Financial Results 2011/12 - to the end of December 2011** *Circulated separately*		Adrian Rowbotham
10.	**Financial Performance Indicators 2011/12 - to the end of December 2011**	(Pages 85 - 88)	Adrian Rowbotham
11.	**Forward Programme**	(Pages 89 - 90)	Tricia Marshall
12.	**Any Other Business**		

Please note: The date of the next meeting is

Members wishing to obtain factual information on above items are asked to enquire of the appropriate Director or Contact Officer before the meeting

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FINANCE ADVISORY GROUP

Minutes of a meeting of the Finance Advisory Group held on
2 November 2011 commencing at 9.30 a.m.

Present: Cllr. Ramsay (Chairman)

Cllrs. Mrs Firth, Fittock, Grint, McGarvey and Scholey.

22. APOLOGIES FOR ABSENCE

There were no apologies for absence.

23. NOTES OF PREVIOUS MEETING

The notes of the meeting of 27 July 2011 were agreed as a correct record.

24. DECLARATIONS OF INTEREST

There were no declarations of interest.

25. MATTERS ARISING INCLUDING ACTIONS FROM LAST MEETING (Report No. 4)

The Head of Finance and Human Resources informed the group that the government had asked local authorities for suggestions to streamline bureaucracy. The current format of the statement of accounts would be put forward as area where requirements could usefully be reduced .

The responses to the actions were noted.

26. BUILDING CONTROL BUDGET (Report No. 6)

The Head of Environmental and Operational Services explained that the Building Control Service had changed significantly in the past 3 years since it had moved from Development Services. The Service has moved from a £40,000 loss to a £58,000 surplus. Over the same period £188,000 savings had been made including from performing house condition surveys on behalf of the Housing Service, absorbing the emergency planning and street naming and numbering roles, further savings and from joint management with Tonbridge and Malling Council. An income of £430,000 was forecast from statutory fees in 2011/12.

The Building Control and Emergency Planning Manager explained that the team did not work under the same conditions as the private sector and had a statutory duty to be available as a building control service. The Council could charge for neither disabled access applications nor enforcement services. The Council had a duty to provide visits at particular stages of a development.

The Government had clarified that the budget for fee-based services could not realise a profit within each year, rather than looking over a rolling 3 year period, as previously. New rules also meant that invoice estimates had to be sent to customers beforehand on the basis of cost recovery only. Complex, bespoke cases had fees determined on an hourly rate. In response to a question, Officers confirmed the hourly rate took account of the full cost of providing a Building Control Officer.

A Member asked what effect the economic situation had on their work. Fee income had decreased but the workload was slightly up. This contrasted with Tonbridge and Malling Council, which the Building Control and Emergency Planning Manager also managed, whose workload had fallen.

70% of their work was fee-earning. Although this could not be used to subsidise other statutory functions, it did contribute to the Council's overheads. The Building Control and Emergency Planning Manager also believed that the Council promoted high quality, safety and sustainability by taking on fee-paying work. The Head of Environmental and Operational Services added that they had increased their discretionary work such as energy certificates for commercial buildings, the code for sustainable homes standard and partnerships with developers for plan-approval.

There were 2 vacant posts in the team. Officers did not expect to fill these unless the workload increased.

The Chairman commended the Officers on an excellent job, with a good balance of work.

27. KENT AND MEDWAY INVESTMENT FUND (Report No. 7)

The Head of Community Development presented the report to the Group. Kent County Council (KCC) had invited Sevenoaks District Council to take part in the Kent & Medway Investment Fund, which they presented as a chance to combine investment and regeneration. The next development phase of the Kent & Medway Investment Fund would set the investment strategy and objectives for the Fund. This phase would involve a commitment of £25,000. Following this stage, if the Council decided to join the fund, a ten year investment of £2 million would be required in either cash or property.

The Group was informed that if they chose to enter the scheme at a later stage then there would likely be financial penalties for taking less risk. The Council would also have less input into the setting of objectives and this could decrease chances of the regeneration involving areas within the Sevenoaks district. Membership of the Fund provided no guarantees that local projects would be helped. A Fund Manager would ensure that the best investment return was secured, which may not benefit regeneration projects.

Some Members were concerned whether it would be beyond the Council's powers to make this investment. The Chairman was concerned whether KCC's proposal to make an investment from the Pension Fund amounted to a Council investing in itself. He had written to the KCC Head of Financial Services but had not received a response. The Head of Community Development said that, if Members were interested in investigating the scheme further, legal advice would have to be taken.

Officers confirmed that any assets contributed would no longer be considered Council assets but would be replaced with a share of investment in the Fund. It was unlikely any property could be bought back and, if it were, it would have to be at the market value at the time.

A Member noted that Officers had not been looking for investments similar to this. It would involve moving £2 million of assets from a 6 month to 10 year investment and from a low to medium or high risk one. In response to Members' queries, Officers confirmed the money would have to come from the general fund reserve and that it ran counter to the Council's current investment strategy, which aimed to be low risk. A Member added that the general fund reserve balance had already been set as low as most Councillors were happy for it to be.

Several Members believed it to be a seriously misguided investment opportunity and very high risk. They believed the premise of combining investment and regeneration to be flawed because of the contradictory aims.

A Member suggested that the proposal could have some benefits. The KCC pension fund had a history of investing in Kent and there had been other examples of regeneration being very effective. However it was still unclear what regeneration would entail in this case. He was also concerned that the Council would not have the leadership of the Fund.

It was suggested the 10% to 12% returns from the fund would be exceptionally difficult to achieve. The management cost was also higher than average as the £500,000 annual fee amounted to a 2% charge when the average was currently 1%. The fund would also attract stamp duty and corporation tax.

It was agreed that capital preservation should was the top priority and as a result the Group would not recommend investment in this Fund.

Resolved: That. Members' views be forwarded to Cabinet for consideration.

At 10:57 a.m. the Chairman adjourned the meeting for the convenience of Members and Officers. The meeting resumed at 11:03 a.m..

28. <u>INVESTMENT STRATEGY UPDATE</u> (Report No. 10)

The Principal Accountant tabled an up-to-date investment portfolio and current lending list. In view of the current turmoil in the Euro zone, the Council had been advised by Sector Treasury Services not to invest for periods longer than 3 months. The exceptions to this were the UK Government and related entities, semi-nationalised institutions and money market funds. Sector had stated no changes were needed to existing investments, but as they matured it was recommended they moved to a maximum of 3 months duration.

The Principal Accountant drew Members' attention to the investments with Clydesdale Bank. The bank was now rated as only A+ in the longer term and hence ceased to meet the Council's minimum credit rating requirement. The Council has £4 million invested with them in total. It would be difficult to find a suitable place for these investments when they matured as limits with most institutions satisfying the minimum credit rating requirement had been reached, whilst other institutions were only interested in single deposits of £5 million and over.

He presented 4 options to the Group and sought Members' views.

The first option was for highly secure government investments, such as Treasury bills, lending to local authorities or the Debt Management Office's Account Deposit

Facility. Rates of return for the Debt Management Office were currently 0.25% for any maturity date up to one year, whilst those for Treasury bills varied between 0.42% for one month, up to 0.50% for six months,

Rates for lending to local authorities could be higher as the current lending to Newcastle Upon Tyne City Council returned 1.25%, but such opportunities were difficult to find.

The second was to increase the lending limit to any institution from £6 million. This would require an amendment to the Council's Investment Strategy.

A third option was to reduce the minimum credit rating requirement for institutions in which the Council would invest, which was currently AA-. This would also require a change to the Investment Strategy. Members did not support this proposal.

Finally he proposed the opening of one or more money market funds, which consisted of high quality, Sterling denominated, short term debt and debt related instruments. All such funds were rated AAA and provided returns between 0.59 and 0.81%. This included the fund manager's fees for sums of £5 million and above. They operated similarly to unit trusts and there was instant access to the cash deposited in them. A factsheet about the Ignis Sterling Liquidity Fund was circulated.

In response to a question he confirmed he had not investigated index-linked gilts but was not sure whether they could be readily accessed.

Members suggested that a Debt Management Office Account could be useful in the short-term while Officers continued to investigate the option of investment in money market funds.

The Principal Accountant updated the Group with the latest information on recovery of the Icelandic investment. The test cases had been successful in the Icelandic Supreme Court and he expected this to apply to the Council's case. Between 95-98% was expected back on the investment and the interest up to the receivership filing date. However, this was dependent on the realisation of the bank's assets which could take until 2018. The Local Government Association was continuing to observe the situation to protect the Council's position.

Resolved: That the report be noted.

29. FINANCIAL RESULTS 2011/12 – TO THE END OF SEPTEMBER 2011
(Report No. 8)

The Finance Manager highlighted that the overall year-end forecast was £60,000 better than the budget. Services had continued to try to make further savings, but some savings from partnership working were not expected to be achieved for the full year. The Chairman noted that property-related income was a significant risk area.

The Head of Finance and Human Resources confirmed that the workload for the Benefits Team was still very high.

In response to questions, the Head of Finance and Human Resources confirmed the Environmental Health Partnership had now been agreed by both the Council and

Dartford Borough Council. Licensing had not met its target for partnerships but the Head of Environmental and Operational Services was looking for alternative savings. The risk with Building Control had been brought to Members' attention in the Service Plans being considered by the Select Committees.

A Member enquired why the CCTV budget contained £48,000 for a contribution from Kent Police which had not been provided. Officers clarified that although Kent Police had been asked for a contribution, the Council had been told Kent Police did not provide financial contributions to any Council's CCTV. The Social Affairs Select Committee had instead suggested Kent Police provide 16 man-hours for the CCTV room so it could be fully staffed again.

30. FINANCIAL PERFORMANCE INDICATORS 2011/12 – TO THE END OF SEPTEMBER 2011 (Report No. 9)

Officers confirmed the indicators were mostly on target.

The Chairman asked what effect the move from 10 to 12 Council Tax Payments per year would have. The Head of Finance and Human Resources stated it would affect cash-flow but she was more concerned by the expected localisation and 10% reduction in funding for council tax benefit from 2013/14. A joint letter of concerns had been sent by local authorities in Kent.

31. FORWARD PROGRAMME (Report No. 11)

No additions were made at this stage.

32. REFERRALS FROM PERFORMANCE AND GOVERNANCE COMMITTEE (Report No. 5)

Performance Monitoring: LPI DS 002 – Total Trading Account Position *(27 September 2011)*

Members were directed to the commentary in the item on Financial Results to the end of September. Graphs were circulated showing the rise in the cost of diesel since April 2010. Officers also told the Group that fees for waste disposal had risen. Savings were expected to be made from moving the Direct Services team from Task software to AGRESSO.

Members considered the possibility of buying fuel in bulk, in advance. The Head of Finance and Human Resources confirmed the Council did have storage tanks which allowed it enough fuel for emergencies and which held more than some neighbouring districts. Fuel futures had not been considered but Officers could investigate this.

Members agreed that it would be helpful to consider further the finances of Direct Services.

> *Action: Direct Services to be added to the Forward Programme for discussion in March 2012.*

33. ANY OTHER BUSINESS (Item No. 12)

No other business was discussed.

THE MEETING WAS CONCLUDED AT 12:10 P.M.

CHAIRMAN

ACTION SHEET - Actions from the previous meeting

ACTIONS FROM 02.11.11			
Action	**Description**	**Status and last updated**	**Contact Officer**
ACTION 1	Direct Services to be added to the Forward Programme for discussion in March 2012.	The Item has been so added.	David Lagzdins Ext. 7350

FINANCE ADVISORY GROUP – 25 JANUARY 2012

KENT COUNTY COUNCIL SUPERANNUATION FUND - INVESTMENTS

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Information

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

Portfolio Holder	Cllr Ramsay
Head of Service	Head of Finance and Human Resources -Tricia Marshall
Recommendation:	That the report be noted.

Introduction

1 Members of the Finance Advisory Group have had an ongoing interest in the performance of the Kent County Council Superannuation Fund and requested that details of the investments held by the superannuation fund be presented to the group.

Fund Position Statement

2 Appendix A contains the Summary of Fund Asset Allocation and Performance as at 30 September 2011. This document was presented to the Kent County Council Superannuation Fund Committee on 18 November 2011.

3 This document contains the following information:

- Market returns for the previous 3 month period;
- Kent fund asset allocation compared to the fund benchmark;
- Asset distribution by fund manager;
- Performance returns; and
- The fund structure.

Statement of Investment Principles

4 Appendix B contains the Statement of Investment Principles as at October 2011 which contains details of the overall responsibility of the fund and the principles used when making decisions about investments.

5 Other documents relating to the superannuation fund, including the annual accounts and committee reports, can be found at: www.kentpensionfund.co.uk

Contact Officer(s):	Tricia Marshall Ext 7205
	Adrian Rowbotham Ext. 7153
DR. PAV RAMEWAL	**DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES**

FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

30 September 2011

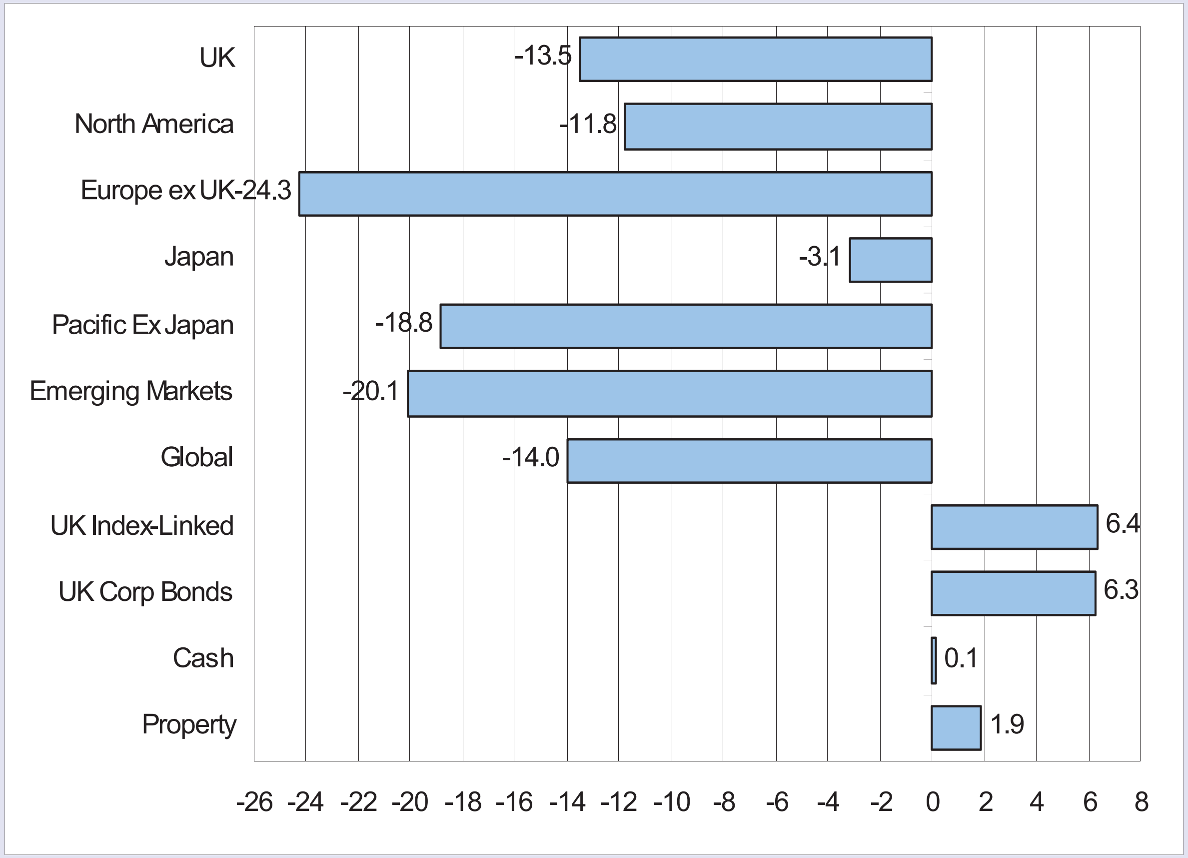
By: Chairman Superannuation Fund Committee

Acting Director of Finance

Kent County Council
Superannuation Fund 2011

Nick Vickers—Head of Financial Services

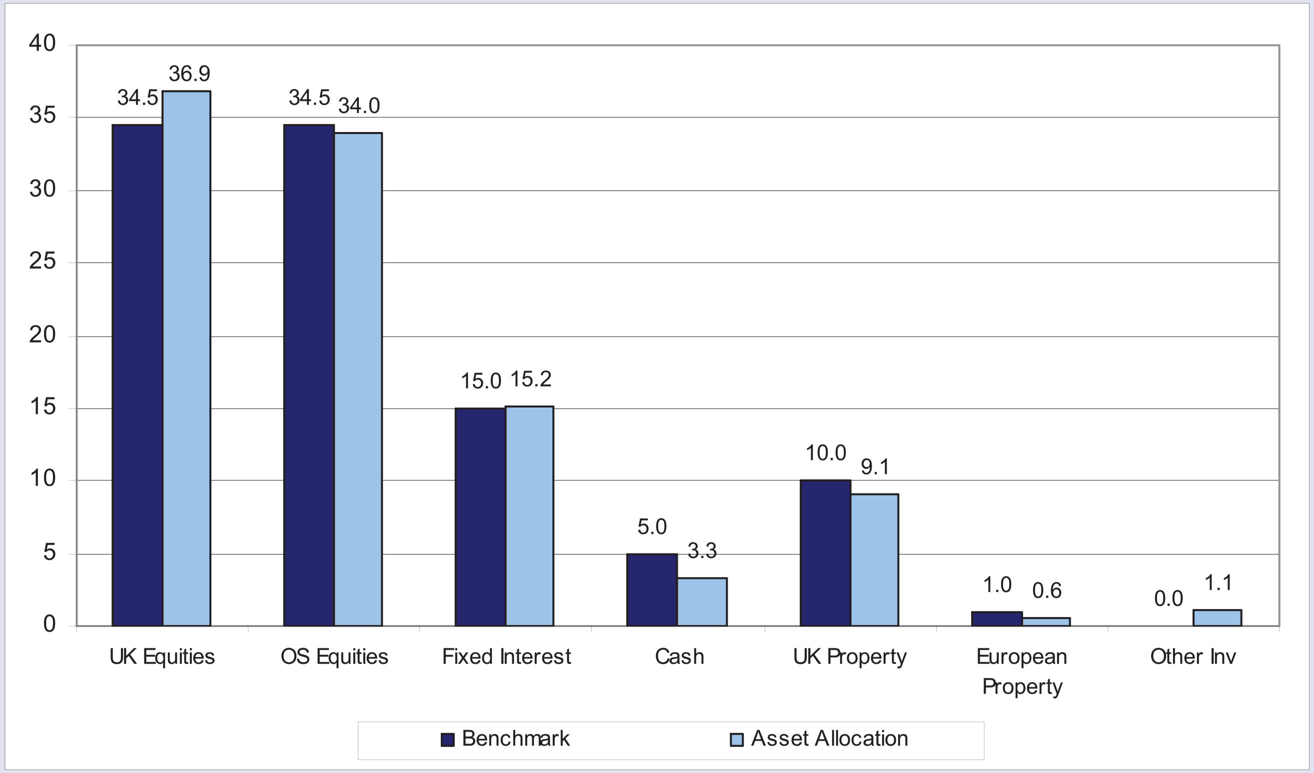
Market Returns - 3 months to 30 September 2011



- This was the worst quarter for stock markets since the beginning of the financial crisis in late 2008.
- Equity markets across the globe fell sharply as investor confidence in the authorities ability to cope with the debt crisis increased.
- Unsurprisingly, Europe ex UK performed least well , where markets fell over 24% as the Eurozone debt crisis continued to unravel.
- Japan had the best performing equity market but still saw falls of over 3%
- UK Indexed Linked and UK Corporate bonds were the best performing asset classes overall with respectable returns of around 6%

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,075	36.9	34.5
Overseas Equities	989	34.0	34.5
Fixed Interest	441	15.2	15.0
UK Property	264	9.1	10.0
European Property	17	0.6	1.0
Cash	95	3.3	5.0
Other Inv	32	1.1	-
Total Value	2,914	100	100

Agenda Item 5

Asset Distribution Fund Manager

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at 30/06/2011	Transactions	Capital Gain / loss	Income	Value at 30/09/2011	% *Fund*	Benchmark
Schroders	UK Equity	548,686	5,529	-86,746	5,570	467,470	16	Customised
Invesco	UK Equity	372,036	0	-14,168	0	357,868	12	Customised
State Street	UK Equity	244,660	0	-32,923	0	211,737	7	FTSE 100 All Share
State Street	Global Equity	293,409	5	-43,631	0	249,783	9	FTSE All World ex UK
Baillie Gifford	Global Equity	579,302	2,636	-77,765	2,901	504,173	17	Customised
GMO	Global Quantitative	194,423	0	-26,750	0	167,673	6	MSCI World
Schroders	Global Quantitative	150,649	0	-25,244	0	125,404	4	MSCI World
Goldman Sachs	Fixed Interest	252,809	184	4,012	176	257,005	9	ML £ Broad Market
Schroders	Fixed Interest	197,492	710	-559	710	197,643	7	ML £ Broad Market
Impax	Environmental	25,830	0	-4,883	0	20,947	1	MSCI World
DTZ	Property UK	264,982	-29	730	3,314	265,683	9	IPD All Properties Index
DTZ	Property Europe	18,130	0	-912	25	17,217	1	IPD All Properties Index
Harbourvest	Private Equity	1,206	1,232	-240	0	2,198	0	
YFM	Private Equity	2,091	378	511	0	2,980	0	
Partners	Infrastructure	14,660	4,035	-466	0	18,229	1	
Henderson	Infrastructure	8,130	0	750	0	8,880	0	
Internally Managed	Cash	38,895	531	0	62	39,427	1	LIBID 7 Day Rate
Total Fund		3,207,391	15,212	-308,286	12,758	2,914,317	100	Kent Combined Fund

Performance Returns to 30 September 2011

Classification: Unrestricted
Item: D2 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	-9.2	-8.7	-0.9	-0.8	6.5	6.0
UK Equity						
Schroders UK	-14.8	-13.2	-6.3	-4.2	7.7	6.0
State Street	-13.5	-13.5	-4.3	-4.4		
Invesco	-3.8	-13.5	6.3	-4.4	8.2	6.0
Overseas Equity						
Baillie Gifford	-12.9	-15.5	-2.8	-5.7	10.1	5.5
GMO	-13.8	-14.1	-3.3	-3.2	3.5	4.8
Schroders GAV	-16.8	-14.1	-7.1	-3.2	7.6	4.8
State Street	-14.9	-14.9	-4.0	-4.0		
Impax Environmental Fund	-18.9	-14.1				
Fixed Interest						
Goldman Sachs Fixed Interest	1.7	6.3	3.2	6.1	9.1	9.0
Schroders Fixed Interest	0.1	3.2	1.0	3.5	8.4	6.8
Property						
UK Property	1.5	1.9	8.7	8.7	5.6	2.5
Overseas Property	-4.9	1.9	9.1	8.7	-12.8	2.5
Private Equity						
Harbourvest	-11.0	0.1				
YFM	23.6	0.1				
Infrastructure						
Partners	-2.9	0.1				
Henderson	9.2	0.1				

Data Source: The WM Company
- returns subject to rounding differences

- The fund fell back below the £3bn mark this quarter as global equity markets fell dramatically.
- Invesco were the top performing equity manager who despite seeing a fall of over 3% , outperformed the benchmark by 10%. Their defensive portfolio stood up well against the current economic backdrop.
- Over the longer term, all our active equity fund managers have outperformed their benchmarks with the exception of GMO.
- Baillie Gifford performed best over 3 years with returns of just over 10%, an outperformance of almost 5%.
- Both fixed interest managers performed badly this quarter but have still performed well over the longer term.

Fund Structure

UK Equities

- Schroders
+1.5%
£467m
- State Street
+0.0%
£212m
- Invesco
Unconstrained
£358m

Global Equities

- Baillie Gifford
+1.5%
£504m
- GMO
+3.0%
£168m
- Schroders
+3.0 - +4.0%
£125m
- State Street
+0.0%
£250m
- Impax
£21m

Fixed Interest

- Goldman Sachs
+0.75%
£257m
- Schroders
+1.0%
£198m

Alternative

- DTZ
UK Property
£266m
- DTZ
Europe Property
£17m
- Kent Cash
£39m
- Henderson
Secondary PFI
£9m
- YFM Private
Equity
£3m
- Harbour Vest
£2m
- Partners
£18m

Market Value £2.9bn
as at 30th September 2011

KENT COUNTY COUNCIL
SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

October 2011

INTRODUCTION

1. In July 1999 the Government published draft amendments to the Local Government Pension Scheme (LGPS) Investment Regulations which came into force in December 1999.

2. Under the regulations, administering authorities are required to maintain and publish a written statement of the principles governing their decisions about investments.

Requirements of the Regulations

3. The regulations state:

   An administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.

   The statement must cover the policy on:-

   – the types of investment held
   – the balance between different types of investment
   – risk
   – the expected returns on investments
   – the realisation of investments
   – the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
   – the exercise of the rights (including voting rights) attaching to investments, if they have any such policy.

KCC Policy

4. Overall Responsibility

KCC is the designated statutory body responsible for administering the Kent Pension Fund on behalf of the member Scheduled and Admitted Bodies. The administering authority's responsibilities are delegated by the County Council to the Superannuation Fund Committee.

The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. The Committee is advised by the Corporate Director of Finance and Procurement and Consulting Actuaries Hymans Robertson.

The Superannuation Fund Committee consists of:

- 8 County Councillors
- 3 District Councillors nominated by 12 District Councils.

(All the above have full voting rights)

- 1 Medway Council representative.
- 1 trade union representatives nominated by Unison.
- 1 staff representative.
- 2 pensioner representatives nominated by the Kent Active Retirement Fellowship.

Committee meetings take place 6 times a year.

The Chairman, Vice Chairman and Spokesmen also meet monthly with the Corporate Director of Finance and Procurement to deal with urgent matters and to examine issues in detail.

5. Fund Objectives

(1) The primary objective of the Fund is to provide for scheme members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis

(2) The funding objective is that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits

accruing. For employee members, benefits will be based on actual service completed but the actuary will take account of future salary increases.

The assumptions used to assess the funding are those used for the actuarial valuation. The position will be reviewed at least at each statutory triennial valuation.

6. Investments

(1) Investment Managers

The Committee will ensure that one or more investment managers are appointed who are authorised under the LGPS (Management and Investment of Funds) Regulations 1998 to manage the assets of the Fund. The Fund's investment managers are:

UK Equities:
- Schroder Investment Management
- Invesco Perpetual
- State Street Global Advisers

Overseas Equities:
- Baillie Gifford
- GMO
- Schroder Investment Management
- State Street Global Investors
- Impax Asset Management

Fixed Income:
- Schroder Investment Management
- Goldman Sachs Asset Management

Property:
- DTZ Investment Management

Secondary PFI:
- Henderson Global Investors

Private Equity:
- YFM Private Equity
- HarbourVest Partners

Infrastructure
- Partners Group
- Henderson Equity Partners

Each manager's remuneration is based on a percentage of funds under management in-accordance with the rates quoted in their tender documents.

(2) Performance Benchmark

The Committee, advised by Hymans Robertson, has set a performance benchmark which is set out in Appendix 1. The Fund allows a normal variation of +/- 2% from the target allocation to each asset class. The Committee monitors deviations from its asset allocation benchmark at its quarterly meetings. If the ranges are breached as a result of relative performance of assets, the Committee may choose to delay bringing the weights back within guideline ranges.

(3) Investment Objectives

The investment objectives for each mandate are set out in Appendix 2.

(4) Choice of Investments

The managers have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. All funds are managed on an active basis except for State Street.

For the UK property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases subject to final agreement by Committee. The mandate includes limited investment in indirect property funds. There is also a separate set of investments in indirect funds. The European investment is through the DTZ Aurora Fund.

(5) Risk

The adoption of a performance benchmark (as described above) and the explicit monitoring of performance relative to the performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage funds in such a way as to enhance returns.

(6) Realisation of Investment

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature would take longer to realise but as they are in selected first class properties should be realisable within a short period of time.

(7) Cash

The Fund has a positive cashflow and each month there is a surplus of income over payments. The Committee has its own agreed Treasury Strategy.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made on whether to hold as a deliberate investment decision, hold to fund forthcoming investments or allocate to existing managers.

7. Monitoring of Investments

(1) The Superannuation Fund Committee meets six times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. The managers attend the Committee meetings at least once a year to explain their strategy and answer questions from members of the Committee. There is also more frequent contact between officers of KCC and the fund managers in relation to their activities.

(2) Major reviews of investment strategy follow the actuarial valuation.

(3) All fund managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product.

8. Investment Advice

Professional advice on investment matters is taken from the investment practice of Hymans Robertson Actuaries and Consultants. General guidance on benchmarking is provided by Hymans Robertson but the investment managers are responsible to the Committee for their investment decisions. Hymans Robertson are remunerated on an hourly rate basis.

9. Investment Principles

A comparative position statement against the CIPFA Investment Decision Making and Disclosure Guide is attached in Appendix 3.

10. Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is attached in Appendix 4.

11. Review of Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the Scheme Regulations.

If you have any questions please contact Nick Vickers, Head of Financial Services, 01622 694603 mailto:nick.vickers@kent.gov.uk

APPENDIX 1

Kent County Council Superannuation Fund

Aggregate Scheme Benchmark

	Benchmark %	Index
UK Equities	34.5	FTSE All-Share
Overseas Equities	34.5	MSCI World and customised
Total Equities	69	
Total Bonds	15	Customised
UK Property	10	IPD
European Property	1	IPD
Cash	5	Libid 7 Days
Total	100	

APPENDIX 2

Kent County Council Superannuation Fund

Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
UK Equities:		
Schroder	Customised	+1.5%
Invesco	FTSE	Unconstrained
State Street	FTSE	Passive
Overseas Equities:		
Baillie Gifford	Customised	+1.5%
GMO	MSCI World	+3%
Schroder	MSCI World	+3-4%
Impax	MSCI World	+2%
State Street	FTSE World ex UK	Passive
Fixed Income:		
Schroder	50% ML Sterling Broad Market / 50% 3 months Libor	+1%
Goldman Sachs	14% FTSE Gilts > 5 years / 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+0.75%
Alternatives:		
UK Property - DTZ	IPD	
European Property - DTZ	IPD	
PFI - Hendersons	LIBID 7 day rate	
Private Equity - YFM	LIBID 7 day rate	
Private Equity – HarbourVest Partners	LIBID 7 day rate	
Infrastructure – Partners Group	LIBID 7 day rate	

APPENDIX 3

<u>CIPFA Investment Decision Making And Disclosure In The Local Government Pension Scheme – A Guide To The Application Of The Myners Principles.</u>

PRINCIPLE 1: EFFECTIVE DECISION MAKING

Administering authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**

- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Issue		**Compliance**	**Comments**
(1)	Committee responsible for the Fund.	Full	
(2)	Roles of Officers fully set out.	Full	
(3)	Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes	Complete (Appendix 4)
(4)	Appointments to committee reflect skills, experience and continuity.	Full	
(5)	Definition of roles	Full	Covered in SIP
(6)	Skills and knowledge audits of members of the Committee. Annual training plan.	Yes	Reviewed annually
(7)	Regular review of structure and composition of committee.	Partial	Report March 2010 to Committee.
(8)	Consideration of establishing Sub-committees	Partial	Report March 2010 to Committee.

(9)	DoF responsible for a member training plan.	Partial	Not formalised.
(10)	Allowances to elected members published.	Full	
(11)	Employee representative allowed time to attend.	Full	
(12)	Clear and comprehensive papers.	Partial	Ask members views.
(13)	DoF should prepare a medium term business plan.	No	Agreed May 2011

PRINCIPLE 2: CLEAR OBJECTIVES

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Issue		**Compliance**	**Comments**
(1)	Liability structure reflected in overall investment objectives.	Yes	Hymans Robertson Compass modelling.
(2)	Advice from specialist independent advisers.	Yes	
(3)	Consideration of risk and return of different asset classes.	Yes	
(4)	Peer group benchmarkers only used for comparative purposes.	Yes	
(5)	Committee should consider VFM in objectives and operations.	Partial	Very unclear what this means.
(6)	DoF and Committee should be aware of the impact of employer contribution rates on Council Tax.	Yes	
(7)	Given the profile of scheme employers committee should consider whether to set up sub-funds.	Yes	
(8)	Take advice on asset/liability study.	Yes	
(9)	Consider allocations to different asset classes.	Yes	

(10)	Advisers should be appointed through open competition.	No	Investment adviser appointed will be tendered in 2010-11.
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

PRINCIPLE 3: RISK AND LIABILITIES

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Issue		**Compliance**	**Comments**
(1)	Investment objectives should reflect liabilities and attitude to risk.	Yes	
(2)	Willingness to accept underperformance due to market conditions.	Yes	
(3)	SIP should include a risk assessment framework of new and potential investments.	No	Not a requirement of the SIP and more relevant to investment strategy.
(4)	Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes	Covered in the Hymans Robertson Compass modelling
(5)	A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes	Discuss with Barnett Waddingham.
(6)	As part of the valuation the impact of long term performance should be assessed.	Yes	
(7)	The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements.	Partial	Internal audit reports have not been reported to the Committee.

(8)	Investment strategy should take account of the ability of employers to pay.	Yes	The actuary sets the rates required for the long term solvency of the Fund.
(9)	Consideration of cashflows compared with liabilities.	Yes	
(10)	Annual report should include a risk assessment of the Fund's activities.	Yes	

PRINCIPLE 4: PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Issue		**Compliance**	**Comments**
(1)	With investment managers ensure the selected benchmark is appropriate.	Yes	Officers advised by Hymans Robertson.
(2)	Consider whether active or passive management is most appropriate.	Yes	
(3)	Divergence from the benchmark should be monitored.	Yes	
(4)	Quarterly monitoring but a 3-7 year timeframe for review.	Yes	
(5)	Returns analysed by independent agency.	Yes	WM undertakes this role.
(6)	Performance of the actuary should be assessed and periodically market tested.	Yes	
(7)	Consultant’s performance should be assessed.	Partial	Appearing to want to make a science of an art.
(8)	A process of self-assessment by officers and members.	Partial	
(9)	In the business plan the performance of the committee should be assessed.	Partial	

(10)	Assessment of the committee should be included in the annual report.	No	

PRINCIPLE 5: RESPONSIBLE OWNERSHIP

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Issue		Compliance	Comments
(1)	SIP and annual report should include policy on responsible ownership.	Partial	Yes in SIP no in current annual report.
(2)	Policy on ESG investing.	Yes	
(3)	Investment managers' policies on intervening in a company should be explicit.	Partial	
(4)	Awareness of the Institutional Shareholders Statement of Principles.	Partial	Share with members of the committee.
(5)	Awareness of UN Principles of Responsible Investment.	Yes	
(6)	Consideration of "alliances" with other pension funds.	Yes	Member of the Institutional Investors Group on Climate Change.

PRINCIPLE 6: TRANSPARENCY AND REPORTING

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.**

- **Provide regular communication to scheme members in the form they consider most appropriate.**

Issue		**Compliance**	**Comments**
(1)	Produce a governance compliance statement.	Yes	
(2)	Produce a communication statement.	Yes	
(3)	Comprehensive view of stakeholders.	Yes	
(4)	Regularly review the annual report.	Yes	
(5)	Content of the governance compliance statement.	Yes	

APPENDIX 4

KENT PENSION FUND

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENT POLICY STATEMENT

Introduction

The Superannuation Fund Committee is fully aware of its fiduciary responsibility to obtain the best possible financial return on the investments of the Pension Fund for acceptable levels of risk. This responsibility is to keep down as far as possible increases in the cost of the scheme to scheme employers and ultimately to dampen the cost of the scheme to Council Tax payers in Kent.

The Fund also seeks through good management of Environmental, Social and Governance (ESG) issues to help the financial performance and improve shareholder investment returns in the companies invested in.

Fiduciary Responsibility

As a consequence of our fiduciary responsibility to the taxpayer the Fund will not impose restrictions upon our external investment managers on specific stocks or countries which they can or cannot invest in.

The Fund is not positioned either to impose blanket restrictions or to adjudicate which stocks or countries the Fund should invest in and is aware that:

- Restrictions will reduce the accountability of the investment managers.

- It is very difficult to determine what activities should be prohibited. This is an issue of individual conscience.

- It is only possible for investment managers to influence company behaviour if they are a shareholder.

The Committee retains the right to intervene with an investment manager if they undertake investments which are not acceptable eg illegal activities, major fraud.

Corporate Governance

The Committee expects the investment managers to fully participate in voting at company Annual General Meetings and to promote adherence to the code of best practice and the new combined code.

Investment managers feedback voting decisions on a quarterly basis.

Shareholder Engagement

The Committee expects the investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of our investments.

Again the Committee expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company which we were invested in, in exceptional circumstances.

UN Principles of Responsible Investment

The Committee supports and endorses the UN Principles of Responsible Investment. The 6 principles are:

- We will incorporate ESG issues into investment analysis and decision making.

- We will be active owners and incorporate ESG issues into our ownership policies and practices.

- We will seek appropriate disclosures on ESG issues by entities we invest in.

- We will promote acceptance and implementation of the principles within the investment industry.

- We will work together to enhance our effectiveness in implementing the principles.

- We will each report on our activities and progress towards implementing the principles.

Climate Change

As a member of the Institutional Investors Group on Climate Change we will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

Shareholder Litigation

The Fund will actively participate in class actions in the USA where it is of clear financial benefit to it.

If you have any comments on this policy statement please contact:

Nick Vickers
Head of Financial Services
✉ nick.vickers@kent.gov.uk
☎**01622 694603**

KENT PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		**Full Compliance**
A Structure	*(a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.* *(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee* *(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.* *(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.*	Yes See Statement of Investment Principles
B Committee Membership and Representation	*(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:* *(i) Employing authorities (including non-scheme employers, eg admitted bodies)* *(ii) Scheme members (including deferred and pensioner scheme members)* *(iii) Independent professional observers* *(iv) Expert advisers (on an ad hoc basis)*	Yes
(1) The Superannuation Fund Committee includes 8 County Council members, 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 KCC staff representative and 2 Kent Active Retirement Fellowship representatives. (2) The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.		

Principle		Full Compliance
C Selection and Role of Lay Members	*(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.*	Yes
D Voting	*(b) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.*	Yes
E Training / Facility Time / Expenses	*(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process.* *(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*	Yes
(1)All additional costs of attending training courses will be reimbursed from the Fund.		
F Meetings - Frequency	*(a) that an administering authority's main committee or committees meet at least quarterly.* *(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.* *(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.*	Yes
(1) The Superannuation Fund Committee meets 6 times a year (2) The Chairman, Vice Chairman and Spokesman meet monthly with the Corporate Director of Finance and Procurement when required to deal with urgent matters. (3) All employers are invited to attend a half-day conference which takes place annually.		

(4) The Pensions Forum meets twice a year for all employers focussing on administration issues.

Principle		Full Compliance
G Access	*(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.*	Yes
H Scope	*(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	Yes
(1)The Committee has always included pensions administration issues in its work whereas in many authorities the focus of the committee or panel are investment issues. (2) The Committee has developed a scrutiny type approach to its review of investment managers.		
I Publicity	*(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.*	Yes
(1) The pensions website within the KCC website is a comprehensive source of information. All unrestricted committee papers are put on the website.		

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FINANCE ADVISORY GROUP - 25 JANUARY 2012

TREASURY MANAGEMENT STRATEGY 2012/13

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Also considered by:	Performance and Governance Committee - 10 January 2012
	Cabinet - 9 February 2012
	Council - 21 February 2012
Status:	For consideration and recommendation to Cabinet
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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) revised the Prudential Code, Treasury Management Code and Guidance Notes in November 2011 and recommend formal adoption of the amended clauses and a restatement of the Treasury Management Policy Statement. These have been included in the main body of the report.

Members' particular attention is drawn to paragraphs 43-59 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	Head of Finance and Human Resources – Mrs. Tricia Marshall

Recommendations:

That Cabinet recommend Council to approve the Treasury Management Strategy Statement set out in this report.

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

Reporting requirements

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, 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.

Treasury Management Strategy for 2012/13

8. The strategy for 2012/13 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the 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;
- creditworthiness policy; and
- policy on use of external service providers.

9. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

10. The suggested strategy for 2012/13 in respect of the above aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services Limited.

Capital Issues

The Capital Prudential Indicators 2012/13 – 2014/15

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

Capital Expenditure

12. 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:

	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Capital Expenditure	2,786	1,390	***	***	***

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

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

14. 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).

	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Capital Expenditure	2,786	1,390	***	***	***
Financed by:					
Capital receipts	139	13	***	***	***
Capital grants	1,669	347	***	***	***
Capital reserves	456	330	***	***	***
Revenue	522	700	***	***	***
Net financing need for the year	**2,786**	**1,390**	***	***	***

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

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

15. 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.

16. Following accounting changes the CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases 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.

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

	2010/11 Actual £000	**2011/12 Estimate £000**	**2012/13 Estimate £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**
Capital Financing Requirement					
Total CFR	206	185	164	143	122
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

MRP Policy Statement

18. 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).

19. 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:

20. 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 – MRP will be based on the CFR.

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

22. 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.

The Use of the Council's Resources and the Investment Position

23. 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 ongoing 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	2010/11 Actual £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Fund balances / reserves	17,711	***	***	***	***
Capital receipts	763	***	***	***	***
Provisions	2,719	***	***	***	***
Other	0	***	***	***	***

Total core funds	**21,193**	***	***	***	***
Working capital*	21,193	***	***	***	***
Under/over borrowing	0	***	***	***	***
Expected investments	**21,193**	***	***	***	***

*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

<u>Estimates of the incremental impact of capital investment decisions on council tax.</u>

24. 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.

	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Council tax band D	-0.14%	***	***	***	***

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

Treasury Management Issues

25. 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

26. The Council's treasury portfolio position at 22 December 2011 appears in Appendix A.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

27. 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	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 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

28. 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.

29. 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.

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

Authorised limit	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 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

31. 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 (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

32. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Bank of England's Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

33. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total

national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

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

- the Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher 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 2012/13;
- borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- there will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

35. It is anticipated that there will be no capital borrowings required during 2012/13.

Annual Investment Strategy

<u>Investment Policy</u>

36. 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.

37. 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.

38. 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 encapsulated within the credit methodology provided by the advisors, Sector.

39. 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.

40. 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.

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

42. Investment instruments identified for use in the financial year are listed in Appendix C under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Creditworthiness Policy

43. 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.

44. 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

45. This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. 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.

46. 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-, Individual of Viability ratings of C- (or BB+), and a Support rating of 3. 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.

47. 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.

48. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

<u>Country limits</u>

49. 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 D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

<u>Investment Counterparty Selection Criteria</u>

50. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investments listed in Appendix C; and

It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

51. Officers will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

52. Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (lending) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

53. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality - the Council will only use banks which:

  are UK banks; and/or

  are EU banks and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following Fitch credit ratings:

  Short term F1

  Long term A-

  Viability / financial strength C-

  Support 3

- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Building societies - The Council will use all societies which meet the ratings for banks outlined above
- Money Market Funds

- UK Government (including gilts, treasury bills and the DMADF)
- Other local authorities
- Supranational institutions

54. It should be noted that the previous minimum long term credit rating of AA- has been reduced to A- in the suggested 2012/13 creditworthiness policy, as recent downgrades have resulted in very few institutions meeting the previous minimum.

55. As an alternative to the construction of a counterparty (or lending) list based around the colour coded credit rating matrix supplied by Sector, Members may prefer an approach using certain specified institutions only. Such an approach might be to limit investments to the main UK banks and building societies irrespective of their credit ratings. The current long term ratings of the major UK banks and top building societies are as follows:

Barclays Bank plc A

Clydesdale Bank plc A+

Co-Operative Bank plc A-

Coventry Building Society A

HSBC Bank plc AA

Leeds Building Society A-

Lloyds Banking Group plc A

Nationwide Building Society A+

Royal Bank of Scotland Group plc A

Santander UK plc A+

56. The drawback of using a prescriptive list of nominated institutions is that it will not be sensitive to changes in ratings and will require further resolutions from Council to add institutions back on to the approved list.

57. Members views on this issue would be appreciated.

<u>Use of additional information other than credit ratings</u>

58. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Other Creditworthiness Issues

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

- Maximum investment period of 1 year.
- Investments are limited to 25% of the total fund to any single institution or institutions within a group of companies.
- Total investments in any one foreign country is limited to 15% of the total fund.
- Investments are limited to £5m per counterparty excluding call accounts and £6m including call accounts.

Investment Strategy

60. 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).

61. Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

62. 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.

63. 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	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

Icelandic Bank Investments

64. The Icelandic courts have supported the view that the Council will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

Policy on the use of external service providers

65. The Council uses Sector Treasury Services as its external treasury management advisers.

66. 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.

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

Scheme of delegation

68. 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 E.

Role of the Section 151 officer

69. 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 F.

Key Implications

Financial

70. 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.

71. 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.

<u>Community Impact and Outcomes</u>

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

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

73. 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.

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 21 February 2012. 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.

77. 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 2012/13 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

SEVENOAKS DISTRICT COUNCIL

List of Investments as at:- 22-Dec-11

Reference	Name	Country	Group	Amount	Start Date	Comm Rate	End Date	Curr Rate	Terms
	Santander UK plc (Business Reserve A/C)	U.K.	Santander	0	01-Apr-99			0.60000%	Variable
	Santander UK plc (Money Market A/C)	U.K.	Santander	0	09-Oct-06			0.80000%	Variable
	Bank of Scotland plc (Corp Instant Access A/C)	U.K.	Lloyds/HBOS	0	01-Aug-04			0.50000%	Variable
	Clydesdale Bank plc (Base Tracker Plus - 15 Day)	U.K.	NAB	0	10-Sep-10			0.65000%	Variable
	Barclays Bank plc (Business Premium A/C)	U.K.		1,192,000	01-Oct-11			0.45000%	Variable
	National Westminster Bank plc (Liquidity Select)	U.K.	RBS	2,000,000	07-Oct-11			0.80000%	Variable
IP991	Aberdeen City Council	U.K.		1,000,000	29-Nov-11	0.50000%	29-May-12		6 Months
IP963	Bank of Scotland plc	U.K.	Lloyds/HBOS	1,000,000	26-May-11	1.80000%	24-Feb-12		9 Months
IP986	Bank of Scotland plc	U.K.	Lloyds/HBOS	1,000,000	03-Nov-11	1.35000%	14-Feb-12		3 Months
IP987	Barclays Bank plc	U.K.		1,500,000	14-Nov-11	0.91000%	14-Feb-12		3 Months
IP989	Barclays Bank plc	U.K.		1,500,000	16-Nov-11	0.91000%	16-Feb-12		3 Months
IP985	Blaenau Gwent County Borough Council	U.K.		2,000,000	07-Nov-11	0.55000%	08-May-12		6 Months
IP813	Landsbanki Islands hf	Iceland		1,000,000	25-Jun-07	6.32000%	25-Jun-09		2 Years
IP953	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	03-Feb-11	1.95000%	03-Feb-12		1 Year
IP961	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	28-Apr-11	1.65000%	31-Jan-12		9 Months
IP970	Lloyds TSB Bank plc	U.K.	Lloyds/HBOS	1,000,000	25-Jul-11	1.42000%	25-Jan-12		6 Months
IP992	Midlothian Council	U.K.		1,000,000	14-Dec-11	0.40000%	14-Mar-12		3 Months
IP958	National Westminster Bank plc	U.K.	RBS	2,000,000	22-Mar-11	1.00000%	27-Apr-12	2.50000%	1 Year
IP997	National Westminster Bank plc	U.K.	RBS	1,000,000	19-Dec-11	1.00000%	18-Jul-12	1.80000%	6 Months
IP968	Nationwide Building Society	U.K.		1,000,000	29-Jun-11	1.02000%	30-Dec-11		6 Months
IP969	Nationwide Building Society	U.K.		1,000,000	15-Jul-11	1.02000%	16-Jan-12		6 Months
IP977	Nationwide Building Society	U.K.		1,000,000	01-Sep-11	1.09000%	01-Mar-12		6 Months
IP948	Newcastle Upon Tyne City Council	U.K.		1,000,000	12-Jan-11	1.25000%	11-Jan-12		1 Year
IP990	Nottingham City Council	U.K.		2,000,000	23-Nov-11	0.50000%	23-May-12		6 Months
IP993	UK Debt Management Office	U.K.		2,500,000	05-Dec-11	0.25000%	04-Jan-12		1 Month
IP994	UK Debt Management Office	U.K.		2,000,000	13-Dec-11	0.25000%	04-Jan-12		22 Days
IP995	UK Debt Management Office	U.K.		1,500,000	15-Dec-11	0.25000%	04-Jan-12		20 Days
IP998	UK Debt Management Office	U.K.		1,000,000	19-Dec-11	0.25000%	05-Jan-12		17 Days
IP999	UK Debt Management Office	U.K.		1,000,000	21-Dec-11	0.25000%	09-Feb-12		7 Weeks
IP983	Ulster Bank Ltd	U.K.	RBS	1,000,000	26-Oct-11	1.05000%	26-Jan-12		3 Months
	Total Invested			34,192,000					
	Other Loan								
	Sevenoaks Leisure Limited			250,000	29-Apr-08	7.00000%	31-Mar-18		10 Years

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APPENDIX B - INTEREST RATE FORECASTS 2011/2015

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	**0.87%**	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	**1.16%**	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	**1.65%**	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	**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	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	**2.25%**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	**2.25%**	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	**3.33%**	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	**3.33%**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	**4.24%**	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.24%**	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	**4.26%**	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.26%**	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

APPENDIX C - 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 D - Approved countries for investments

Based on lowest available rating

AAA

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

AA+

- Belgium

APPENDIX E - 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 the responsible body.

APPENDIX F - 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.

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FINANCE ADVISORY GROUP – 25 JANUARY 2012

PARTNERSHIP WORKING – COSTS AND SAVINGS

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Information

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

Portfolio Holder	Cllr Ramsay
Head of Service	Head of Finance and Human Resources -Tricia Marshall

Recommendation: That the report be noted.

Introduction

1 At a previous meeting Members asked for a report on implementation costs and savings for partnership working to be included in the Group's forward programme for this meeting.

Current partnerships in place

2 The appendix lists all of the partnership arrangements currently in place and also shows those that have ended.

Future partnerships

3 Possible future partnerships included in savings proposals for 2012/13 to 2014/15 are:

- CCTV;
- Extension of Licensing partnership;
- Human Resources.

4 The development of future partnerships relies on finding willing partners and the development of a mutually beneficial operating model. Therefore, alternative plans will be put in place to achieve the required savings should partnership working not be achieved in the above service areas.

Key Implications

Financial

5 This report is for information only and there are therefore no financial implications arising from this report. The partnerships listed have been entered into by the Council in order to achieve financial savings, deliver increased efficiencies and to improve resilience of service delivery.

Community Impact and Outcomes

6 The partnership working arrangements outlined above have delivered financial savings usually through reducing the cost of management or back office services, thus delivering a financial benefit to local residents whilst maintaining customer facing services.

Legal, Human Rights etc.

7 There are no legal or human rights implications arising from this report.

Risk Assessment Statement

8 There are no new risks associated with this report. Each partnership proposal would include a risk assessment.

Contact Officer(s): Tricia Marshall Ext. 7205

Adrian Rowbotham Ext. 7153

DR. PAV RAMEWAL **DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES**

Sevenoaks District Council

Register of Shared Working Arrangements

Description	Type	Start Date	Partner Organisation(s)	Implementation Costs £000	Annual Savings £000
Current Shared Services					
Shared Financial Management System	Contractual	Nov-01	Tandridge	Nil	6
Licensing Partnership	Shared Service	May-06	Tunbridge Wells & Maidstone	50	38
Public Convenience Cleaning	Contractual	Apr-08	Tandridge	Nil	11
Shared Head of Development Services	Shared Management	Oct-08	Tunbridge Wells	Nil	20
Bottle Bank Emptying	Contractual	Dec-08	Dartford	Nil	3
Out of Hours Service	Contractual	Sep-09	Tonbridge & Malling	Nil	11
GIS Services	Contractual	Oct-09	Dartford	Nil	15
Equalities Officer	Shared Officer	Jan-10	Tunbridge Wells and Tonbridge & Malling	Nil	15
Print Services	Contractual	Jan-10	Dartford	Nil	10
Revenues, Benefits, Audit & Fraud	Shared Service	Dec-10	Dartford	417 (2010/11-14/15)	250
Property Services – Asset Management	Contractual	Apr-11	Tandridge	Nil	13
Procurement & Risk Management	Shared Service	Apr-11	Dartford	Nil	Cost Neutral
Shared CCTV Manager	Shared Management	Apr-11	Tunbridge Wells	Nil	23
Shared Senior Parking Engineer	Shared Officer	Apr-11	Tonbridge & Malling	Nil	26
Shared Building Control Manager	Shared Management	Oct-11	Tonbridge & Malling	Nil	34
Environmental Health	Shared Service	Apr-12	Dartford	243 (2011/12-16/17)	150
Police co-location Phase 1	Co-location	Jun-10	Kent Police	Nil	4
Moat Housing co-location	Co-location	Nov-11	Moat	30	24
Maternity cover for Tonbridge & Malling Community Safety Co-ordinator 0.4 FTE	Shared Officer	Jan-11	Tonbridge and Malling	Nil	15

Description	Type	Start Date	Partner Organisation(s)
Ended Shared Services			
Shared Environmental Health Manager (To be replaced by Shared Service)	Shared Management	Sept 2008 to March 2011	Dartford
Internal Audit (Replaced by Shared Service)	Shared Management	Oct 2008 to Oct-10	Dartford
Benefit Fraud (Replaced by Shared Service)	Shared Management	April 2009 to Oct-10	Dartford
Democratic Services	Shared Management	Nov 2010 to Jan 2012	Dartford
Legal Services	Shared Management	April 2009 to March 2011	Tonbridge & Malling

FINANCE ADVISORY GROUP – 25 JANUARY 2012

BUDGET 2012/13 – REVIEW OF RISKS AND ASSUMPTIONS

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

Status: For consideration

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

Portfolio Holder Cllr Ramsay

Head of Service Head of Finance and Human Resources – Tricia Marshall

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Recommendations:

It be resolved that Members views are requested on the risks and assumptions included in the attached appendices.

Introduction

1 The Draft Budget 2012/13 report to Cabinet on 8 December 2011 stated that the Finance Advisory Group would be asked to review the assumptions and risks within the draft budget proposals.

2 The risk assessment included in that report is attached for Members' consideration (Appendix A). The 10-Year Budget is also attached (Appendix B).

Key Financial Assumptions

3 The financial assumptions included in the financial plan are as follows:

- **Revenue Support Grant / Non Domestic Rates** – -14.8% in 2012/13, -9.1% in 2013/14 and -10% in 2014/15, then 3% growth in later years. A draft figure for 2012/13 was received in December 2011 which was the same as the provisional figure received in December 2010. Final confirmation is expected in February 2012.
- **Council Tax** – no increase in 2012/13, 3% increase in 2013/14 and 2014/15 then 4% increase in later years.
- **Interest receipts** – this is based on Sector's interest rate forecast plus 0.3%. 0.8% in 2012/13, 1% in 2013/14, 2% in 2014/15 then 2.8% in later years.
- **Pay costs** – 0% in 2012/13, 1% in 2013/14, 1.5% in 2014/15 then 2% in later years.

- **Non-pay costs** – 2.5% in 2012/13, 3.5% in 2013/14, 3% in 2014/15 and 1.75% in later years.
- **Income** – 3% in 2012/13 then 3.5% in later years.

Key Implications

Financial

4 All financial implications are covered elsewhere in the report.

Community Impact and Outcomes

5 A balanced budget that includes the assessment and management of risk provides the Council with the financial stability required to plan and deliver its services to the community.

Legal, Human Rights etc.

6 There are no legal or human rights issues.

Conclusions

7 The financial assumptions are based on the latest available information but Members should be aware that these may change. Any changes will be included in the budget report to Cabinet on 9 February 2012.

Risk Assessment Statement

8 The risks include the uncertainty around the timing of key announcements such as the Grant settlement. The risk will be mitigated by continuing to review assumptions and by updating Members throughout the process.

Sources of Information:	Draft Budget 2012/13 Report (Cabinet 8 December 2011) Financial Prospects and Budget Strategy 2012/13 and Beyond Report (Cabinet 13 October 2011, Performance & Governance 15 November 2011)
Contact Officer(s):	Tricia Marshall ext. 7205 Adrian Rowbotham ext. 7153
DR. PAV RAMEWAL	**DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES**

Risk Factors 2012/13

Issue	**£ Scale**	**Likelihood** 1 (low) – 5 (high)	**Impact** 1 (low) – 5 (high)	**Total Score**	**Potential Annual Impact and Sensitivity Analysis**	**Risk Areas**	**Controls and Actions in place**
Pay Costs	£12.5m total costs	2	4	8	1% pay increase = £125k. Budget assumption = 0%	Largest single item of cost. Complex drivers across the organisation.	Strict monitoring of both financials and staff numbers. Formal sickness/overtime monitoring. Separate control on agency staff. Part of National Agreement.
Pensions Funding	£23m deficit	1	4	4	1% change in employers cont'ns = £110k. Revaluation to take effect from 14/15	Deficit on County Fund. Future actuarial results. Government review.	£520,000 included in 10-year budget in 2014/15 to contribute towards any revaluation increase.
Major Service Income areas:					See below by income type	Income subject to local economic conditions. Some very large single-source income targets (see below).	Strict monitoring, with trend analysis.

Issue	**£ Scale**	**Likelihood** 1 (low) – 5 (high)	**Impact** 1 (low) – 5 (high)	**Total Score**	**Potential Annual Impact and Sensitivity Analysis**	**Risk Areas**	**Controls and Actions in place**
- Land Charges	£0.2m	4	1	4	20% reduction would be £37k.	Low activity levels in the housing market. National legal action now underway in relation to Personal Search companies recouping monies expended under the previous legislation.	A provision of £34k is held for the national legal action. Continue to monitor.
- Development Control	£0.6m	2	3	6	20% reduction would be £120k.	Low activity levels in the housing market and general economic conditions.	Current year income is below target. Continue to monitor.
- Building Control	£0.5m	4	3	12	20% reduction would be £100k	Low activity levels in the housing market and general economic conditions.	Current year income is below target. Continue to monitor.
- Car Parks	£2.0m	2	4	8	20% reduction would be £407k	General economic conditions	Current year income is slightly below target. Continue to monitor.
- On-Street Parking	£0.7m	3	3	9	20% reduction would be £130k	General economic conditions. Reverts to KCC control	Current year income is below target. Continue to monitor and review.

Issue	£ Scale	Likelihood 1 (low) – 5 (high)	Impact 1 (low) – 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place
Partnership working and partner contributions		3	2	6	Impact on individual projects is high.	Partner actions delayed. Agreed funding not received by SDC. Partnerships ending.	Separate accounting arrangements. Written partnership agreements.
External Funding Awards	£0.7m	3	2	6	Up to £700k Impact on individual projects is high	Time limited.	Exit strategies in place.
Changes in service demand		3	3	9	Impacts will vary depending on service.		Service planning in place Continue to lobby Government where changes are due to new Gov't requirements.
VAT	£0.15m	1	2	2	5% change in VAT rate would be £150k.	VAT rate increased from 20%.	Review fees and charges.
Interest Rates	£0.153m 11/12 budget	2	4	8	£85k per 0.5%.	Large cash variance from small rate changes. Large fluctuations in bank base rate.	Use of professional advisers
Investments	£22m balance at 31/03/11	1	5	5		Financial institutions going into administration.	Investment strategy regularly reviewed by FAG and P&G Cttee.

Issue	**£ Scale**	**Likelihood** 1 (low) – 5 (high)	**Impact** 1 (low) – 5 (high)	**Total Score**	**Potential Annual Impact and sensitivity Analysis**	**Risk Areas**	**Controls and Actions in place**
Asset base maintenance	£1.1m 06/07 Assess't	1	1	1	Annual budget is based on 35% of assessed maintenance.	Unexpected problems occurring with financial implications. Reducing budget levels.	Reserve funds set aside. 10 year maintenance planning carried out. Policy of reducing asset liabilities wherever possible.
Capital Investment resources	£0.8m balance at 31/03/11	2	2	4	Risks taken into account in the Capital Programme report.	Capital receipt levels low.	External funding sought wherever possible. Capital Investment priorities in place. Property Review being pursued to secure asset sales.
Disposal of surplus assets	£0.8m budget in plan (12/13)	2	2	4	Risks taken into account in the Capital Programme and Asset Maintenance report.	Planning conflict. Resources required to bring sites forward.	Land Owner/Planning protocols in place. In-house property team. Planned Property Review disposal programme.
Government Grant	£4.9m	5	4	20	£49k per 1% change	Government reduces grant levels or assumes a higher level of efficiencies in order to reduce grnt.	Adequate level of General Reserve held. Financial Plan assumes grant reduction phased across 4 years.

Issue	£ Scale	Likelihood 1 (low) – 5 (high)	Impact 1 (low) – 5 (high)	Total Score	Potential Annual Impact and sensitivity Analysis	Risk Areas	Controls and Actions in place
Council tax capping		3	1	3	£92k per 1% capping reduction	Council Tax frozen	Draft 10-year budget assumes no increase for 2012/13
Future Service Changes by Government		4	4	16		Additional services without consequent resources, e.g. Maint. of trees on common land.	Monitor proposals. Respond to consultation with local view.
Fuel cost increases for Direct Services	£0.5m	5	2	10	£21k overspend to October 2011.	Changes in global oil prices.	Continue to monitor fuel usage and efficiency.
Changes to external framework		2	2	4		Abolition of Audit Commission, change of external auditors	Plan responses to new initiatives well in advance. Ensure Council organisation design can meet challenges.

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Ten Year Budget - Revenue

	Budget 2011/12	Plan 2012/13	Plan 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Plan 2019/20	Plan 2020/21	Plan 2021/22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure											
Net Service Expenditure c/f	13,771	13,771	13,443	13,628	14,662	15,110	15,531	15,935	16,197	16,569	16,934
Inflation		468	621	633	565	564	566	563	558	552	339
Pension Fund deficit: actuarial increase		0	0	520							
Net savings (approved in previous years)		(796)	(436)	(119)	(117)	(143)	(162)	(301)	(186)	(187)	0
New growth and savings		***0***									
Net Service Expenditure b/f	**13,771**	**13,443**	**13,628**	**14,662**	**15,110**	**15,531**	**15,935**	**16,197**	**16,569**	**16,934**	**17,273**
Financing Sources											
Government Support	(4,912)	(4,186)	(3,805)	(3,424)	(3,527)	(3,633)	(3,742)	(3,854)	(3,970)	(4,089)	(4,212)
Govt Support to offset 2011/12 C Tax freeze	(229)	(229)	(229)	(229)	0	0	0	0	0	0	0
Govt Support to offset 2012/13 C Tax freeze		(231)									
Council Tax	(9,199)	(9,199)	(9,475)	(9,759)	(10,149)	(10,555)	(10,977)	(11,416)	(11,873)	(12,348)	(12,842)
Interest Receipts	(153)	(173)	(243)	(530)	(712)	(656)	(599)	(543)	(489)	(415)	(415)
Contributions to Reserves	471	330	430	330	330	330	330	330	330	330	330
Contributions from Reserves	(14)	(588)	(588)	(588)	(588)	(588)	(588)	(588)	(588)	(588)	(588)
Total Financing	**(14,036)**	**(14,276)**	**(13,910)**	**(14,200)**	**(14,646)**	**(15,102)**	**(15,576)**	**(16,071)**	**(16,590)**	**(17,110)**	**(17,727)**
Contribution to/(from) Stabilisation Reserve	**265**	**833**	**282**	**(462)**	**(464)**	**(429)**	**(359)**	**(126)**	**21**	**176**	**454**
Budget Gap	***0***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***	***(0)***

Cumulative position (surplus)/deficit: (191)

Assumptions

Government Support: -14.8% in 12/13, -9.1% in 13/14, -10% in 14/15, +3% later years
Council Tax: 0% in 12/13, 3% in 13/14 & 14/15, 4% later years
Interest Receipts: 12/13 0.8%, 13/14 1%, 14/15 2%, 2.8% later years
Pay award: 0% in 12/13, 1% in 13/14, 1.5% in 14/15, 2% later years
Increments: 1.5% in all years
Other costs: 2.5% in 12/13, 3.5% in 13/14, 3% in 14/15 1.75% later years
Income: 3% in 12/13, 3.5% in later years

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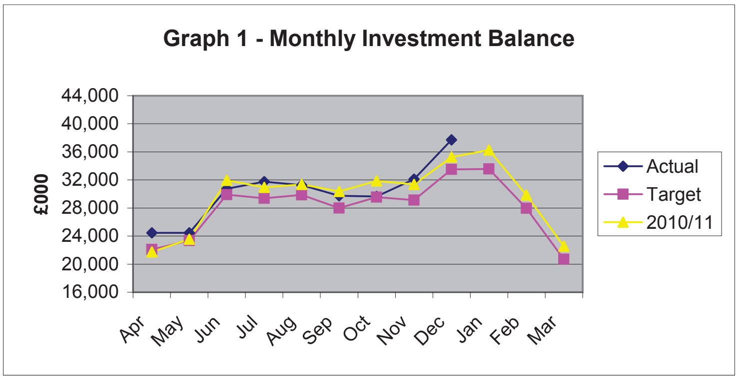
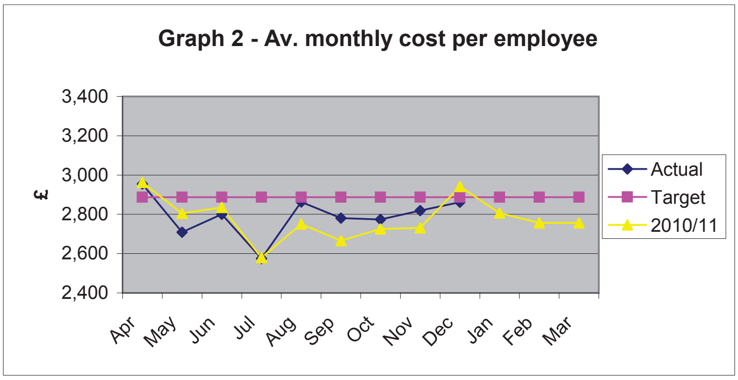
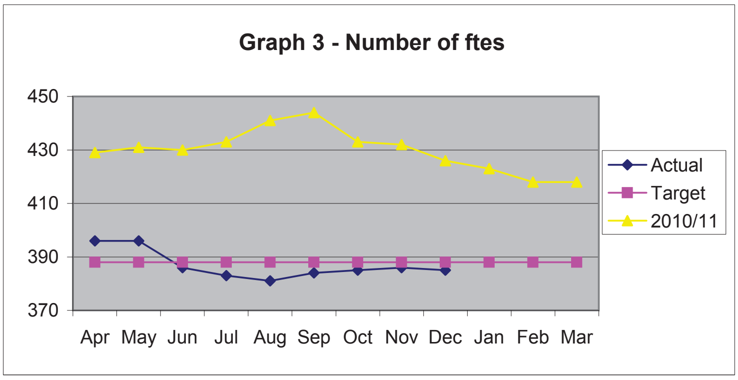
Finance Advisory Group Finance Indicators 2011/12
as at end December 2011

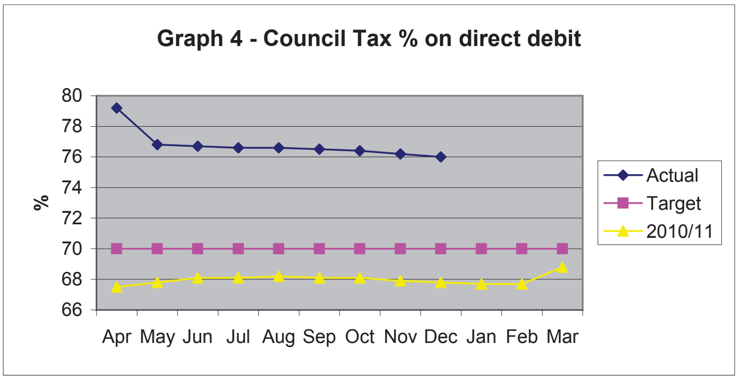
Description	target	actual	Variance	%	notes	graph
Monthly investment balance £000	33,510	37,718	4,208	12.6%	Total investments at month end. Precepts are paid in 10 instalments of roughly £6m, but not in June or December. Therefore, we receive cashflow benefits until the last 2 precept payments go out in February and March. The target figures have been updated to reflect the Balance Sheet position as at 31/03/11.	1
Average monthly cost per employee (non cumulative) £	2,887	2,862	-25	-0.9%	Target is annual pay budget divided by budget ftes, figures include agency and casual staff.	2
Number of ftes	388	385	-3	-0.8%	Target is budgeted ftes.	3
Council Tax % collected for 2011/12	87.6	87.6	0.0	0.0%	LPIFS 19. Monthly cumulative figures	-
NNDR % collected for 2011/12	87.9	88.0	0.1	0.1%	LPIFS 20. Monthly cumulative figures.	-
Council Tax payers % on direct debit	70.0	76.0	6.0	8.6%	LPIFS8 - % on direct debit	4
Investment return % 3 month LIBID 7 day LIBID	0.90 0.78 0.47	1.10	0.20	22.5%	Cumulative return on investments. Target is budget assumption	5
Sundry debtors: debts over 21 days £000	35	56	21	60.0%	21 days is taken as the base as the first reminder is issued after 3 wks.	6
Sundry debtors: debts over 61 days £000	20	46	26	130.0%	61 days is when the third reminder is issued (debts exclude items on 'indefinate hold', e.g. debtors in administration)	7

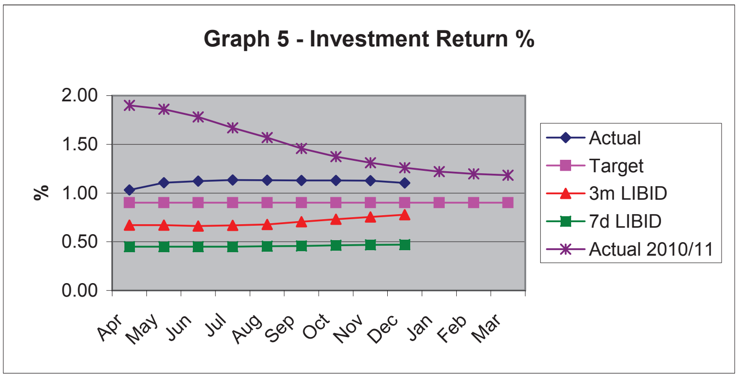
Finance Advisory Group Finance Indicators 2011/12
as at end December 2011

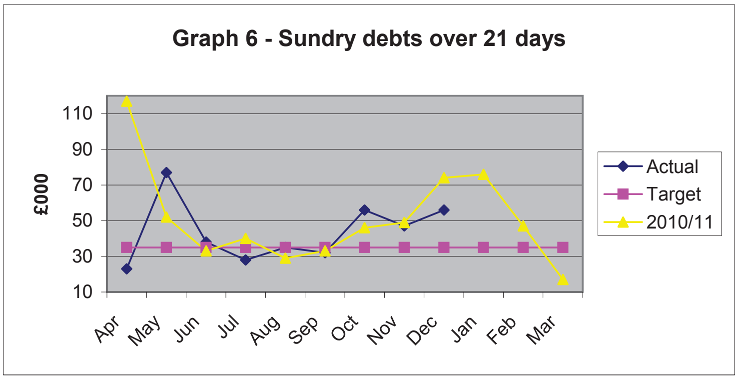


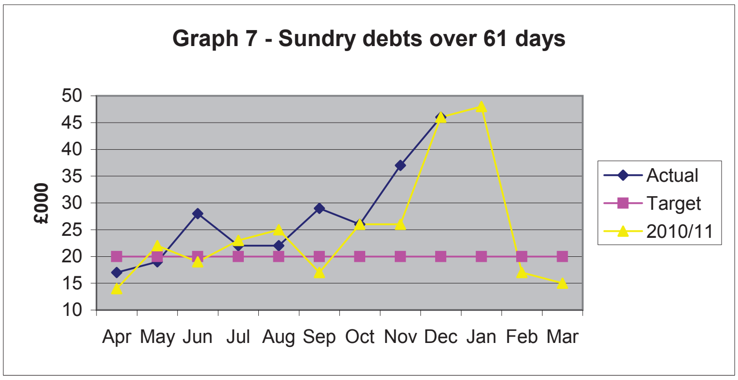







Graph 5 - Investment Return %
2.00
1.50
1.00
0.50
0.00
%
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Actual
Target
3m LIBID
7d LIBID
Actual 2010/11


Graph 6 - Sundry debts over 21 days
110
90
70
50
30
10
£000
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Actual
Target
2010/11


Graph 7 - Sundry debts over 61 days
50
45
40
35
30
25
20
15
10
£000
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
Actual
Target
2010/11

FORWARD PROGRAMME FOR FINANCE ADVISORY GROUP

Topic	25 January 2012	28 March 2012	May/June 2012	July 2012
Annual Accounts				Draft Statement of Accounts 2011/12
Budget	Risks and Assumptions for Budget 2012/13			
Financial Monitoring	December 2011 Results	Feb 2012 results	April 2012 results	June 2011 results
Financial Performance Indicators	December 2011	February 2012	April 2012	June 2011
Treasury Management	Treasury Management Strategy 2012/13			Investment Strategy Update
Invitee		Direct Services		
Other	Costs and Savings in Partnership Working Pensions Investments	Revenues and Benefits Partnership Working		