Sevenoaks
DISTRICT COUNCIL

Despatched: 16.01.13

FINANCE ADVISORY GROUP

24 January 2013 at 9.30 am
Conference Room, Argyle Road, Sevenoaks

AGENDA

Membership:

Chairman: Cllr. Ramsay

Cllrs. Firth, Fittock, Grint, McGarvey and Scholey

		Pages	Contact
	Apologies for Absence		
1.	**Minutes** Minutes of the meeting held on 24 October 2012	(Pages 1 - 6)	
2.	**Declarations of interest** Any interests not already registered		
3.	**Matters arising including actions from last meeting**	(Pages 7 - 8)	Adrian Rowbotham Tel: 01732 227153
4.	**Referrals from Performance & Governance Committee:** None		
5.	**Kent County Council Superannuation Fund – Investments**	(Pages 9 - 34)	Adrian Rowbotham Tel: 01732 227153
6.	**Treasury Management Strategy 2013/14**	(Pages 35 - 66)	Roy Parsons Tel: 01732 227204
7.	**Costs and Savings in Partnership Working**	(Pages 67 - 72)	Adrian Rowbotham Tel: 01732 227153
8.	**Risks and Assumptions for Budget 2013/14**	(Pages 73 - 84)	Adrian Rowbotham Tel: 01732 227153
9.	**Financial Results 2012/13 - to the end of December 2012** Circulated separately		Helen Martin Tel: 01732 227483
10.	**Financial Performance Indicators 2012/12 - to the end of September 2012** Circulated separately		Helen Martin Tel: 01732 227483

11. **Forward Programme** (Pages 85 - 86)

Please note: The date of the next meeting is 27 March 2013

EXEMPT ITEMS

(At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.)

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

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

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

The Democratic Services Team (01732 227241)

FINANCE ADVISORY GROUP

Minutes of the meeting held on 24 October 2012 commencing at 9.30 am

Present: Cllr. Ramsay (Chairman)

Cllrs. Firth, Grint, McGarvey and Scholey

Apologies for absence were received from Cllr. Fittock

24. Minutes

The notes of the meeting of 25 July 2012 were agreed as a correct record.

25. Declarations of Interest

No new declarations of interest were made.

26. Matters Arising including actions from last meeting

The amended list of investments was circulated following an action from the action sheet. Wendy Fair (Wembley) Ltd would continue to provide the markets until new procurement tenders are taken. Edenbridge town council were liaising with the Property Services Manager on the way forward for the market in Edenbridge.

27. Referrals from Performance & Governance Committee:

There were none.

28. Direct Services

The Head of Environmental and Operational Services referred to the Direct Services Business reports, circulated with the agenda and gave a verbal update. Previous areas of concern were pest control, cesspool emptying and trade waste. Overall there had been a healthy surplus of £83,605 for the first six months of the financial year, but the profited surplus is £11,000. The adverse variant was almost totally down to wasp nest treatment income, which was down over £45,000 on the same period last year. This year for Pest Control had been the lowest number of treatments for wasps nests. This was due to the weather over the spring. Only 126 treatments had been undertaken compared with 773 last year. Domestic properties are charged £52 and commercial properties are charged £60 for wasp nest treatments. It was noted that a Pest Control service is not statutory. If the service cannot cover its costs from charges then it will be reviewed. The service was currently in the second year of a three year review to see if it can recover its costs from charging. A report would be brought back next year.

The surplus for trade waste was £41,000 after six months. It was estimated that there would be a viable surplus for this service at the end of the financial year.

Pricing for cesspool emptying had been reviewed. There was an £11,000 surplus at the end of the six months. There are 800 active customers over the last 18 months. The majority of cesspool emptying was carried out in the south of the district. The Council would collect any volume, but customers requiring an emptying of 2000 gallons or less use the Council's service most. There are two crew members and vehicles. Although it is not the lowest price compared to competitors, there is a very high customer satisfaction rate with the service.

The Head of Environmental and Operational Services tabled fuel prices which had stabilised and are slightly under the estimated price for the past 6 months. Since June, however there was an upwards trend and is now back up to £1.16 a litre for fuel which was favourably comparable the average price for trade transport.

Members asked if there were any major changes needed with MOT testing. The Operational Manager explained that there was new technology available for MOT testing and would be purchased as necessary. We have diagnostic equipment which can diagnose faults codes. Direct Services carry out, on average, nearly 700 MOTs a year along with a similar number of taxi tests. Tests only are carried out, and not repairs, arising from the tests.

In response to questions the Head of Environmental and Operational Services advised that the financial objective for Direct Services was to achieve the approved budgeted surplus, which is integrated in the Council's 10 year budget plan. The main investment is in new vehicles, which is charged to the vehicle replacement fund. It is financed by depreciation charges on all vehicles. This ensures the fund is always available to maintain a vehicle replacement programme.

The household refuse collection service is budgeted to achieve a deficit. The cost of the service is charged at less than the actual cost of delivery. The deficit is made up through surpluses on the non - statutory services which are provided. If a tender exercise was carried out, a true reflection of the cost would have to be provided for the service. It last went to tender in 1995 during the Compulsory Competitive Tender legislation. The service had since been through a Best Value Review and at that time Members determined to continue delivering the service in house. Any decision to market test this service would be for the Council to determine.

Members requested if it would be possible to compare with other councils the cost of services in comparison. The Council achieved best value in the past in comparison to other Kent Councils and compared favourable to Gravesham, another DSO, who provided a very similar refuse collection service.

Members discussed the use of wheeled bins. The Health and Safety Executive (HSE) had expressed their concerns over manual handling issues of a sack collection method in comparison to the use of wheeled bins. Letters would be sent to residents who are using wheeled bins to store their bags in, requesting that a box is put at the bottom of the bin or that a shallow bin is purchased, or that residents take their sacks out of the bin themselves to prevent back strain on the collectors. This is on the advise of the HSE.

There are currently eight Kent Districts who had adopted or are adopting the preferred collection method for Kent, which entails alternative weekly collections of food waste. Through these arrangements Kent County Council would contribute to containerisation through the disposal savings of waste which had been recycled or composted rather than be incinerated.

In response to Members' questions a weekly collection of wheeled bins would result an increased number of crews and collections and this would be more costly.

> *Action 1: The Financial Services will provide details regarding the return on assets employed.*

> *Action 2: The Finance Manager will provide details of the weekly refuse collection cost per household calculation.*

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

Members considered the report of the Property Services Manager. Members discussed the options regarding the use of Cobden Road Centre in Sevenoaks which was set out in the report. The Group considered comments from a Local Member which were tabled at the meeting as they were received too late for the report.

Members felt that there was not enough detail in the report exploring the different options set out.

Concerns were expressed by some of the Members regarding the sale of the property. The concerns raised were:

- That now was not the right time to be sell the property.
- Had it been explored to see if there was an a credible social purpose.
- Had West Kent Housing been approached to see if there would be interest in purchasing the property for social housing?
- If West Kent Housing would not like the property than efforts should be made to see if a different charity would be interested in taking up the tenancy.

It was agreed that any comments should be raised with the Property Services Manager prior to the meeting of the Performance and Governance Committee.

> Resolved: That it be RECOMMENDED that Performance and Governance Committee recommend to Cabinet that the Cobden Road Centre, Sevenoaks be sold on the open market by auction.

30. Financial Prospects

The Group Manager Financial Services reported that with the 10 year budget there are two major uncertainties. The first was the change in Government settlement methodology. We are currently estimating a 19% reduction over 2 years but it could range from 13% to 30%. The announcement is not expected until the end of December. The second uncertainty related to Council Tax, was the recent Government announcement of the offer of a 1% freeze grant for two years and a 2% cap on increases. Currently there was a 3% increase included for 2013/14 in the 10 year budget. In January a further report will be presented to Cabinet when there had been further clarification.

A report had been sent to Select Committees which provided an update on proposed changes to the budget that affects each service. It listed the changes to the 4 year savings plan and new growth and saving items. It totalled £180,000 net growth. Members were asked to focus on their areas and report back to Cabinet. A further report may go to the Select Committees in January if additional savings are required to obtain a balanced 10 year budget.

31. Update on Localisation of Council Tax Support

The Group Manager Financial Services provided an update to the Group at the last meeting in July. The verbal update was provided due to last weeks Government announcement. Currently council tax benefit was a national scheme administered by local authorities but funded by central government. From 1 April 2013 each authority would have their own local scheme. Government funding would be 10% less than present. Due to the high number of pensioners in the district. The 10% saving would be needed to be spread over the remaining 48% of claimants. Town and parish councils would not be affected.

The proposed scheme presented to Cabinet in July included a standard deduction of 18.5% on all non-pensioner claimants (i.e. if an individual currently receives 100% benefit, under the proposal they would receive an 81.5% discount.)

The Director of Corporate Resources had been negotiating with Kent County Council to reduce the proposal from 18.5% to 15% by the second home discount being abolished and checking the single person discount eligibility.

On 16 October 2012 the DCLG announced an additional £100 million in funding for councils to help support them in developing local council tax support schemes. This would be a voluntary transition grant for councils who set a scheme with a standard deduction of no more than 8.5% on all non-pensioner claimants. The £100 million would be insufficient to cover the gap in funding and it is likely to be only for one year.

32. Financial Results 2012/13 - to the end of September 2012

The Finance Manager presented the budget monitoring results for the end of September 2012. It was reported that the year end position was a favourable forecast of £20,000. Income from car parking, pre application fees and s106 monitoring are down. Under the Localism Act planning fees could be increased by 15%, however the new fee regulations from central government are not yet in force.

The income from car parks is down. This is a Kent wide issue due to the Olympics, weather and people shopping more quickly. Members asked if the Bluewater car parks were full. It was discussed that the free parking at Bluewater was provided by additional service charges to the shops which pay for the free parking.

33. Financial Performance Indicators 2012/13 - to the end of September 2012

The Finance Manager tabled the Financial Performance Indicators.

The target for Sundry debts over 61 days represented less than 1% of debts raised.

From October onwards premises licences can be suspended if the licence fee is not paid.

Members asked why graph 5 did not show the 2011/12 figures in yellow, like the other graphs.

Action 3: Graph 5 will be changed so that the figure for 2011/12 would be in yellow for consistency with the other graphs.

Action 4: The Head of Environmental and Operational Services would be asked if a written summary of the Direct Services figures could be provided in the future to give a overview and help with the understanding of the information provided.

34. Forward Programme

The Group was happy with the Forward Programme. It was discussed and agreed that Development Control would be invited to the meeting in March. Revenues and Benefits would be invited to the June meeting to look at the impact of the changes.

THE MEETING WAS CONCLUDED AT 12.06 pm

Chairman

Action Sheet - Actions from the previous meeting

ACTIONS FROM 24.10.12			
Action	**Description**	**Status**	**Contact Officer**
1.	The Group Manager - Financial Services to provide details regarding the cost effectiveness and return on assets employed (Direct Services).	Email sent to Members on 06.11.2012	Adrian Rowbotham Ext. 7153
2.	The Finance Manager to provide details of the weekly refuse collection cost per household calculation.	Email sent to Members on 06.11.2012	Helen Martin Ext. 7483
3.	Graph 5 of the Financial Performance Indicators 2012/13 to be changed so that the figure for 2011/12 would be in yellow for consistency with the other graphs.	Action completed	Helen Martin Ext. 7483
4.	The Head of Environmental and Operational Services to be asked if a written summary of the Direct Services figures could be provided in future Financial Performance Indicators to give an overview and help with the understanding of the information provided.	This will be provided in future reports (11.01.2013)	Helen Martin Ext. 7483

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KENT COUNTY COUNCIL SUPERANNUATION FUND - INVESTMENTS

Finance Advisory Group – 24 January 2013

Report of the:	Chief Executive Designate
Status:	For Information
Key Decision:	No

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

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

Recommendation to Finance Advisory Group: 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 on an annual basis.

Fund Position Statement

2 Appendix A contains the Summary of Fund Asset Allocation and Performance as at 30 September 2012. This document was presented to the Kent County Council Superannuation Fund Committee on 16 November 2012.

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 included in the Superannuation Fund Report and Accounts 2011/12. This 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: http://www.kentpensionfund.co.uk

Key Implications

Financial

6 The financial impact of the actuarial triennial valuation of the superannuation fund is included in the budget process.

Community Impact and Outcomes

7 There are no community impacts arising from this report.

Legal, Human Rights etc

8 There are no legal or human rights issues.

Equality Impacts

9

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

Risk Assessment Statement

10 Effective management of the superannuation fund by Kent County Council is a risk to this Council.

11 The financial impact of the actuarial triennial valuation of the superannuation fund is included in the budget process.

Appendices	Appendix A – Summary of Fund Asset Allocation and Performance as at 30 September 2012 Appendix B – Statement of Investment Principles
Background Papers:	Finance Advisory Group report 25 January 2012 – Kent County Council Superannuation Fund - Investments
Contact Officer(s):	Adrian Rowbotham Ext. 7153 Helen Martin Ext. 7483

Dr. Pav Ramewal
Chief Executive Designate

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

By: Chairman - Superannuation Fund Committee
Corporate Director of Finance and Procurement

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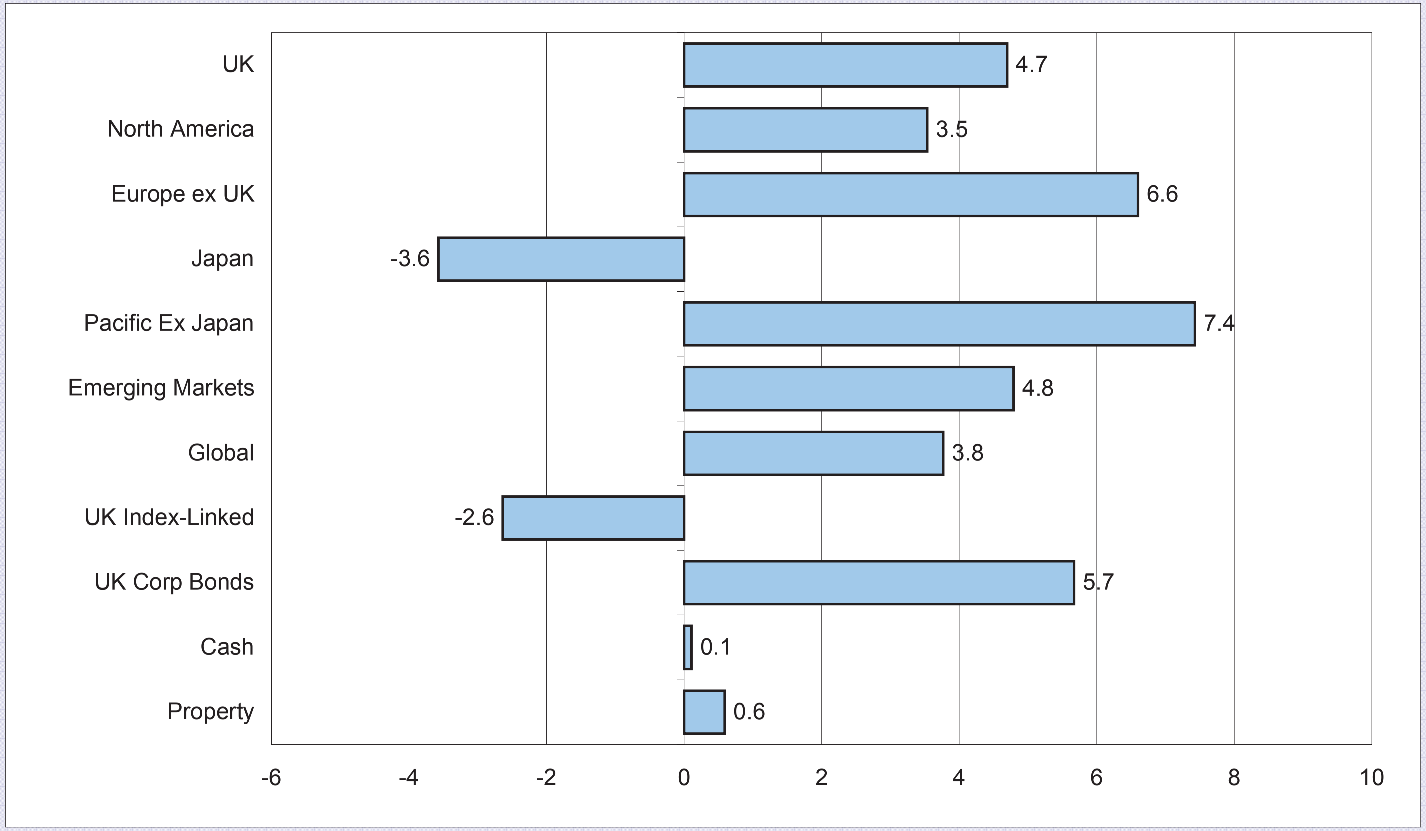
Kent County Council
Superannuation Fund 2012

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 September 2012

Classification: Unrestricted
Item: D2 refers



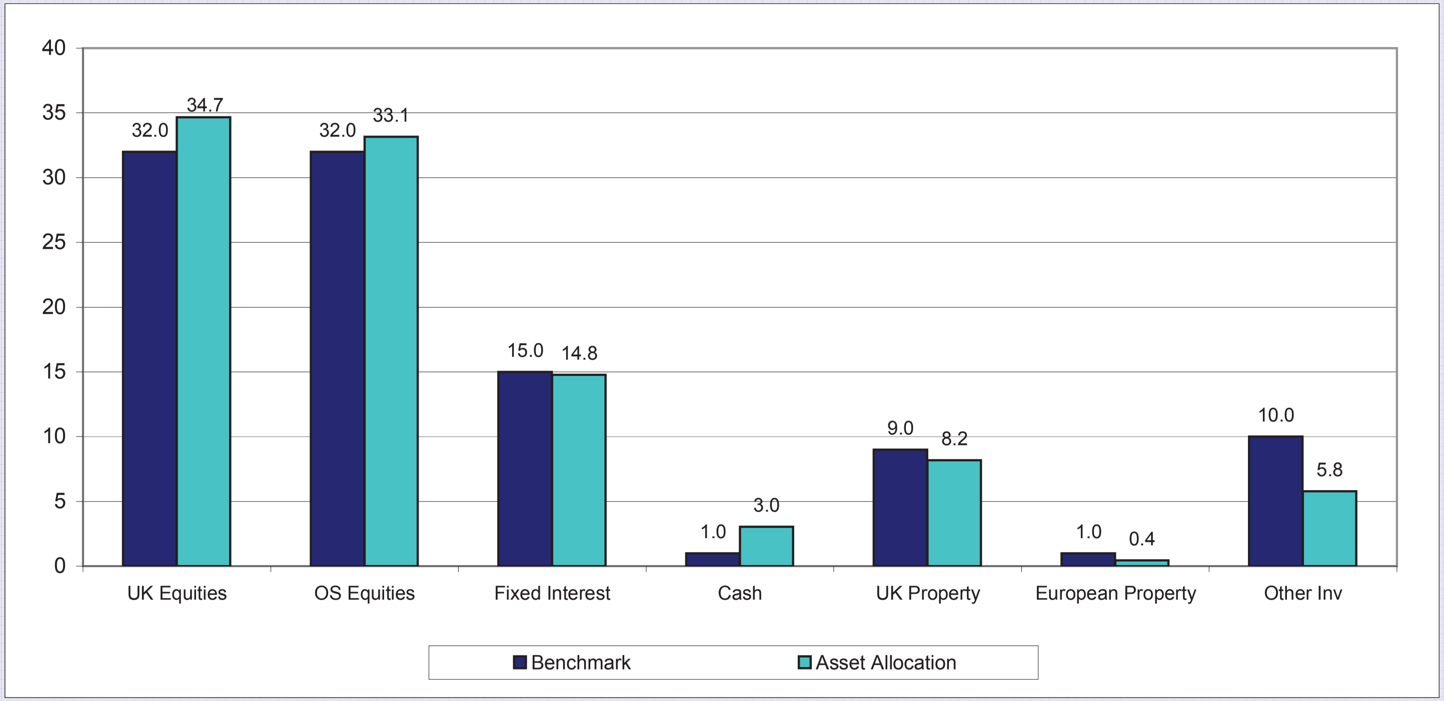
Global equity markets rallied strongly in this quarter. Equities across all the markets except in Japan returned strong growth, with strongest growth in the Pacific Markets and the Eurozone, followed by Emerging Markets and the UK.

Index Linked Gilts continued to fall on the back of further quatntitaive easing by the Bank of England. On the other hand UK corporate bonds rallied due to investors seeking higher yield assets.

Property returned modest growth in a weak economic scenario.

Asset Allocation vs Fund Benchmark - 30 September 2012

Classification: Unrestricted
Item: D2 refers



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,159	34.7	32.0
Overseas Equities	1,109	33.1	32.0
Fixed Interest	494	14.8	15.0
UK Property	273	8.2	9.0
European Property	15	0.4	1.0
Cash	101	3.0	1.0
Other Inv	193	5.8	10.0
Total Value	3,345	100	100

Asset Distribution Fund Manager - 30 September 2012

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at 30/06/2012	Transactions	Capital Gain / loss	Income	Value at 30/09/2012	% *Fund*	Benchmark
Schroders	UK Equity	516,910	5,873	11,392	5,906	534,175	16	Customised
Invesco	UK Equity	402,227	-	16,182	-	418,409	13	Customised
State Street	UK Equity	189,233	(37,000)	8,244	-	160,478	5	FTSE All Share
State Street	Global Equity	238,411	3	9,289	-	247,703	7	FTSE All World ex UK
Baillie Gifford	Global Equity	566,993	2,707	18,224	3,079	587,924	18	Customised
GMO	Global Quantitative	186,455	-	5,088	-	191,542	6	MSCI World NDR
Schroders	Global Quantitative	138,010	-	4,960	-	142,970	4	MSCI World NDR
Goldman Sachs	Fixed Interest	278,006	93	11,925	129	290,024	9	Customised
Schroders	Fixed Interest	207,228	665	4,328	665	212,221	6	Customised
Impax	Environmental	21,396	-	462	-	21,858	1	MSCI World NDR
DTZ	Property UK	295,800	(24,882)	3,936	3,596	274,855	8	IPD All Properties Index
DTZ	Property Europe	15,424	-	(433)	25	14,991	0	IPD All Properties Index
Harbourvest	Private Equity	5,248	1,547	24	-	6,819	0	GBP 7 Day LIBID
YFM	Private Equity	3,574	(86)	85	-	3,573	0	GBP 7 Day LIBID
Partners	Infrastructure	27,191	1,531	(805)	-	27,916	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,442	-	127	-	8,568	0	GBP 7 Day LIBID
Internally Managed	Cash	41,058	13,425	-	41	54,484	2	GBP 7 Day LIBID
Pyrford	Absolute Return	96,178	49,134	953	-	146,264	4	RPI + 5%
Total Fund		3,237,782	13,010	93,983	13,441	3,344,775	100	Kent Combined Fund

Performance Returns - 30 September 2012

Classification: Unrestricted
Item: D2 refers

	Quarter		1 year		3 years (p.a.)	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	3.3	3.5	13.4	13.7	8.3	8.0
		3.2*		13.4*		7.9*
UK Equity						
Schroders UK	3.3	4.6	14.3	16.9	7.8	7.9
State Street	4.7	4.7	17.4	17.2	8.2	8.1
Invesco	4.0	4.7	16.9	17.2	11.7	8.1
Overseas Equity						
Baillie Gifford	3.8	4.0	16.5	14.6	10.1	5.5
GMO	2.7	3.6	14.2	17.3	6.2	7.2
Schroders GAV	3.6	3.6	14.0	17.3	6.2	7.2
State Street	3.9	3.9	17.6	17.7		
Impax Environmental Fund	2.2	3.6	4.4	17.3		
Fixed Interest						
Goldman Sachs Fixed Interest	4.3	3.9	12.9	11.5	9.0	8.2
Schroders Fixed Interest	2.4	1.4	7.4	5.6	5.3	4.8
Property						
UK Property	2.6	0.6	6.2	3.5	14.9	11.3
Overseas Property	-2.6	0.6	-11.7	3.5	-7.6	11.3
Private Equity						
Harbourvest	-0.1	0.1	-8.1	0.5		
YFM	2.4	0.1	7.9	0.5		
Infrastructure						
Partners	-3.0	0.1	-6.5	0.5		
Henderson	1.5	0.1	-3.5	0.5		
Absolute Return						
Pyrford	1.3	2.2				

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

Besides the strategic benchmark which measures the fund's target return based on the strategic allocation of funds, we have also measured the fund's returns against a floating benchmark which is based on actual allocation of funds across the asset classes. The fund has performed favourably against its strategic benchmark although fell a bit short against the floating benchmark, except in the 3 year period.

All equity funds returned positive growth this quarter. However Invesco are marginally behind the benchmark in the quarter as well as in the 1 year period, but significantly ahead in the 3 year period. Baillie Gifford have also underperformed in the quarter but have returned strong above benchmark performance in the 1 year and 3 year periods. Schroders are behind benchmark in the 1 year and 3 year periods in both their equity mandates and also in the quarter in the UK Equity mandate, although they have acheived just around benchmark returns in the last quarter in the Global equities mandate. GMO are lagging behind in all the quarter, 1 year and 3 year periods. Impax have continuously and significantly underperformed throughout the 3 periods. StateStreet continue to match benchmark returns.

Fixed income funds were the star performers of this quarter and both Goldman Sachs and Schroders have returned strong above benchmark returns in the last quarter , 1 year and 3 year periods.

DTZ's UK Property portfolio has modestly but consistently outperformed its benchmark although its European investment continues to significantly underperform.

YFM are showing consistent returns above the cash benchmark over the quarter and last 1 year. Returns from Henderson PFI were above benchmark this quarter but below for the 1 year. Returns from both Harbourvest and Partners continue to be below benchmark and are yet to pick up in the J curve.

Pyrford returned below benchmark performance in the quarter, although they outperformed in the last quarter.

Classification: Unrestricted
Item: D2 refers

Fund Structure - 30 September 2012

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £534m	Baillie Gifford +1.5% £588m	Goldman Sachs +0.75% £290m	DTZ UK Property £275m	Kent Cash £54m
State Street +0.0% £160m	GMO +3.0% £192m	Schroders +1.0% £212m	DTZ Europe Property £15m	Henderson Secondary PFI £9m
Invesco Unconstrained £418m	Schroders +3.0 - +4.0% £143m			Partners £28m
	State Street +0.0% £248m			YFM Private Equity £4m
	Impax £22m			HarbourVest £7m
				Pyrford RPI +5.0% £146m

Market Value £3.3bn
as at 30 September 2012

Statement of Investment Principles

Introduction

Under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, administering authorities are required to prepare, maintain and publish a statement of investment principles (SIP).

Requirements of the Regulations

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

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.

Statement of Investment Principles

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

Committee meetings take place 6 times a year.

Fund Objectives

- 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
- 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.

Investments

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 2009 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 Advisors
- Impax Asset Management

Fixed Income:

- Schroder Investment Management
- Goldman Sachs Asset Management

Property:

- DTZ Investment Management

Private Equity:

- YFM Private Equity
- HarbourVest Partners

Infrastructure / PFI:

- Partners Group
- Henderson Equity Partners

Absolute / Total Return:

- Pyrford International

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

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.

Investment Objectives

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

Statement of Investment Principles

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.

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.

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 they should be realisable within a short period of time.

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.

Monitoring of Investments

- 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.

Statement of Investment Principles

- Major reviews of investment strategy follow the actuarial valuation.
- 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.

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.

Investment Principles

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

Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is at appendix 4.

Review of Statement of Investment Principles

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

Any questions should be addressed to Nick Vickers, Head of Financial Services.

Appendix 1 – Aggregate Scheme Benchmark

	Benchmark %	Index
UK Equities	34.5	FTSE All Share and customised
Overseas Equities	34.5	MSCI World and customised
Total Equities	69	
Fixed Income	15	Merrill Lynch UK Bonds Broad Market and customised
Property	11	IPD Pension Fund Index
Cash / Other Assets	5	GBP 7 Day LIBID rate and RPI
Total	**100**	

Appendix 2 – Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
UK Equities:		
Schroder Investment Management	Customised	+1.5%
Invesco Perpetual	FTSE All Share TR	Unconstrained
State Street Global Advisors	FTSE All Share TR	Passive
Global Equities:		
Baillie Gifford	Customised	+1.5%
GMO	MSCI World Index NDR	+3%
Schroder Investment Management	MSCI World Index NDR	+3-4%
Impax Asset Management	MSCI World Index NDR	+2%
State Street Global Advisors	FTSE World ex UK (Custom)	Passive
Fixed Income:		
Schroder Investment Management	50% ML Sterling Broad Market, 50% 3 months Libor	+1%
Goldman Sachs Asset Management	14% FTSE Gilts > 5 years, 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+0.75%
Property:		
DTZ Investment Management	IPD Pension Fund Index	
Cash / Other Assets (Alternatives):		
Private Equity – YFM Private Equity	GBP 7 Day LIBID	
Private Equity – HarbourVest Partners	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure (Secondary PFI)- Henderson Fund Management	GBP 7 Day LIBID	
Absolute Return – Pyrford International	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Investments team	GBP 7 Day LIBID	

Appendix 3 – Investment Principles

CIPFA Investment Decision Making and Disclosure in The Local Government Pension Scheme – A Guide to The Application of The Myners Principles.

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

Appendix 3 – Investment Principles (cont.)

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 2010
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

Appendix 3 – Investment Principles (cont.)

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	Refer to note 16 to the accounts on risks arising from financial instruments

Appendix 3 – Investment Principles (cont.)

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	
(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	

Appendix 3 – Investment Principles (cont.)

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
(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.

Appendix 3 – Investment Principles (cont.)

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 – 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 feed back voting decisions on a quarterly basis.

Appendix 4 – Environmental, Social and Governance Investment Policy Statement (cont.)

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.

Any comments on this policy statement should be addressed to:

Nick Vickers
Head of Financial Services

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TREASURY MANAGEMENT STRATEGY 2013/14

Finance Advisory Group - 24 January 2013

Report of the:	Chief Executive Designate
Status:	For Decision
Also considered by:	Performance and Governance Committee - 8 January 2013 Cabinet - 7 February 2013 Council - 19 February 2013
Key Decision:	No

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

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

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

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

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

Recommendation to Finance Advisory Group:

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

Recommendation to Cabinet:

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

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

Background

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

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

3. CIPFA defines treasury management as:

   "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

Introduction

Reporting requirements

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

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

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

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

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

Treasury Management Strategy for 2013/14

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

Capital Issues

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

Treasury management Issues

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

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

Training

10. The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken in 2010 and further training will be arranged as required.

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

Treasury management consultants

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

13. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

Capital Issues

The Capital Prudential Indicators 2013/14 – 2015/16

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

Capital Expenditure

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

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

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

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

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

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

Financed by:					
Capital receipts	119	197	***	***	***
Capital grants	1,085	396	***	***	***
Capital reserves	330	330	***	***	***
Revenue	814	500	***	***	***
Net financing need for the year	**2,348**	**1,423**	***	***	***

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

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

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

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

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

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

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Financing Requirement					
Total CFR	185	164	143	122	101
Movement in CFR	-21	-21	-21	-21	-21

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

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

Minimum Revenue Provision (MRP) Policy Statement

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

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

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

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

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

Core Funds and Expected Investment Balances

28. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

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

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

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

<u>Affordability Prudential Indicators</u>

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

<u>Ratio of Financing Costs to Net Revenue Stream</u>

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

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

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

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

Incremental Impact of Capital Investment Decisions on Council Tax.

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

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

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

Treasury Management Issues

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

Current Portfolio Position

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

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Operational boundary	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000

Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

The Authorised Limit for external debt

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

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

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

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

Prospects for Interest Rates

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

39. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to

consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

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

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

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

Borrowing Strategy

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

Annual Investment Strategy

<u>Investment Policy</u>

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

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

45. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally

assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps (CDS)” and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.

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

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

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

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

Creditworthiness Policy

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

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

51. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

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

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

54. All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

<u>Country limits</u>

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

<u>Other Creditworthiness Issues</u>

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

a. Maximum investment period of 1 year.

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

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

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

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

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

a. Maximum investment period of 1 year.

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

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

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

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

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

59. These proposed changes were discussed at the meeting of the Performance and Governance Committee on 8 January 2013. Some concern was expressed about the 40% limit proposed in paragraph b. above as well as the increased use of building societies. However, it was felt that this Group would be the best forum in which to discuss these issues further.

<u>Investment Strategy</u>

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

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

- 2012/2013 0.50%

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

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

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

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

Icelandic Bank Investments

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

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

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

End of Year Investment Report

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

Scheme of delegation

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

Role of the Section 151 officer

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

Key Implications

Financial

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

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

Community Impact and Outcomes

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

Legal, Human Rights etc.

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

Equality Impacts

73.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	The recommendation is concerned with investment management and does not directly impact upon a service provided to the community.
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified		No mitigating steps are required.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
above?		

Conclusions

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

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

Risk Assessment Statement

76. Treasury Management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and
- A counterparty to which the Council has lent money fails to repay the loan at the required time.

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

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

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

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

Dr. Pav Ramewal
Chief Executive Designate

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SEVENOAKS DISTRICT COUNCIL

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

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

SEVENOAKS DISTRICT COUNCIL

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

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

APPENDIX B: Interest Rate Forecasts 2013 – 2016

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

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APPENDIX C: Economic Background

The Global economy

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

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

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

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

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

The UK economy

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

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

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

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

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

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

Sector's forward view

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

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

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

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

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

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

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

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

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

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

APPENDIX D - SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS

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

Term deposits within the UK

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

Term deposits with nationalised banks and banks and building societies

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

Others

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating AA- or better and Sector colour code 'Green' or better	In-house
UK Government Gilts	UK sovereign rating AA- or better	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating AA- or better	In-house buy and hold
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating AA- or better	In house

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

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

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

APPENDIX E - Approved countries for investments

Based on lowest available rating

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

AA+
- France

AA
- None

AA-
- Belgium

APPENDIX F - Treasury management scheme of delegation

Full Council

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

Cabinet

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

Performance and Governance Committee

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

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

The S151 (responsible) officer is responsible for:

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

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PARTNERSHIP WORKING – COSTS AND SAVINGS

Finance Advisory Group – 24 January 2013

Report of the:	Chief Executive Designate
Status:	For Information
Key Decision:	No

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

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

Recommendation to Finance Advisory Group: That the report be noted.

Introduction

1 On 25 January 2012 Members were presented with a report on implementation costs and savings for partnership working. Following that meeting, Members asked for this report to be added to the Group's forward programme on an annual basis.

Current Partnerships in Place

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

Changes in the Last Year

3 New arrangements starting in the last year consist of:

- Police reception.
- Kent County Council co-location in Argyle Road.

4 Arrangement ending in the last year consist of:

- Shared Head of Development services with Tunbridge Wells.
- Maternity cover for Tonbridge and Malling Community Safety Co-ordinator
- GIS services for Dartford.

Future Partnerships

5 Opportunities for future partnerships appear to be diminishing but officers will continue to look at this option when changes occur.

Key Implications

Financial

6 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

7 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

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

Equality Impacts

9

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

Risk Assessment Statement

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

Appendices	Appendix A – Register of Shared Working Arrangements
Background Papers:	Finance Advisory Group report 25 January 2012 – Partnership Working – Costs and Savings
Contact Officer(s):	Adrian Rowbotham Ext. 7153 Helen Martin Ext. 7483

Dr. Pav Ramewal
Chief Executive Designate

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Appendix A

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	3
Licensing Partnership	Shared Service	May-06	Tunbridge Wells & Maidstone	50	38
Public Convenience Cleaning	Contractual	Apr-08	Tandridge	Nil	12
Bottle Bank Emptying	Contractual	Dec-08	Dartford	Nil	3
STAG maintenance	Contractual	Jan-09	Sevenoaks Town Council	Nil	14
Out of Hours Service	Contractual	Sep-09	Tonbridge & Malling	Nil	12
Equalities Officer	Shared Officer	Jan-10	Tunbridge Wells and Tonbridge & Malling	Nil	15
Print Services	Contractual	Jan-10	Dartford	Nil	10
Police co-location Phase 1	Shared Service	Jun-10	Kent Police	Nil	4
Revenues, Benefits, Audit & Fraud	Shared Service	Dec-10	Dartford	417 (10/11-14/15)	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	25
Shared Senior Parking Engineer	Shared Officer	Apr-11	Tonbridge & Malling	Nil	24
Shared Building Control Manager	Shared Management	Oct-11	Tonbridge & Malling	Nil	26
Moat Housing co-location	Shared Service	Nov-11	Moat	30	27
Environmental Health	Shared Service	Apr-12	Dartford	243 (11/12-16/17)	150
Police Reception	Shared Service	Oct-12	Kent Police	180	18
Kent CC co-location	Shared Service	Dec-12	Kent County Council	Nil	12
				Total	**656**

Appendix A

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Description	Type	Start Date	Partner Organisation(s)	Implementation Costs	Annual Savings
Ended Shared Services					
Shared Environmental Health Manager (Replaced by Shared Service)	Shared Management	Sept 2008 to March 2011	Dartford	n/a	n/a
Internal Audit (Replaced by Shared Service)	Shared Management	Oct 2008 to Oct-10	Dartford	n/a	n/a
Benefit Fraud (Replaced by Shared Service)	Shared Management	April 2009 to Oct-10	Dartford	n/a	n/a
Democratic Services	Shared Management	Nov 2010 to Jan 2012	Dartford	Nil	20
Legal Services	Shared Management	April 2009 to March 2011	Tonbridge & Malling	Nil	25
GIS Service	Contractual	Oct 2009 to Mar 2012	Dartford	Nil	15
Maternity cover for Tonbridge & Malling Community Safety Co-ordinator 0.4 FTE	Shared Management	Jan-11	Tonbridge and Malling	Nil	15
Shared Head of Development Services	Shared Management	Oct-08	Tunbridge Wells	Nil	20

BUDGET 2013/14 – REVIEW OF RISKS AND ASSUMPTIONS

Finance Advisory Group – 24 January 2013

Report of the:	Chief Executive Designate
Status:	For Consideration
Key Decision:	No

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

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

Recommendation to Finance Advisory Group: Members views are requested on the risks and assumptions included in the attached appendices.

Introduction

1 The Draft Budget 2013/14 report to Cabinet on 10 January 2013 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:

- Government Support: -14% in 2013/14, -7% in 2014/15, -4% in 2015/16, -2% in 2016/17, -1% in 2017/18, +3% in later years. The Government announced provisional figures for 2013/14 and 2014/15 on 19 December 2012.

- Council Tax: 1.99% in 2013/14, 3% in 2014/15, 4% in later years. The Government has confirmed that a Council Tax increase in 2013/14 in excess of 2% would trigger a local referendum. The Government has also announced that if a Council freezes its Council Tax in 2013/14 they will receive a 1% grant for two years.

- Interest Receipts: 0.8% in 2013/14 and 2014/15, 1.2% in 2015/16, 1.3% in later years. These assumptions are based on the Sector Bank Rate Forecast +0.3%.

- Pay costs: 1% in 2013/14, 1.5% in 2014/15, 2% in later years.

- Non-pay costs: 3.5% in 2013/14, 3% in 2014/15, 1.75% in later years.
- Income: 3.5% in all years.

Key Implications

Financial

4 All financial implications are covered elsewhere in this 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.

Equality Impacts

7

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

Conclusions

8 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 7 February 2013.

Risk Assessment Statement

9 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.

Appendices	Appendix A – Risk Factors 2013/14 Appendix B – 10-Year Budget
Background Papers:	Cabinet report 10 January 2013 – Draft Budget 2013/14
Contact Officer(s):	Adrian Rowbotham Ext.7153 Helen Martin Ext.7483

Dr. Pav Ramewal
Chief Executive Designate

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Appendix A

Risk Factors 2013/14

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	£13m total costs	2	4	8	1% pay increase = £130k. Budget assumption = 1%	Largest single item of cost. Complex drivers across the organisation.	Strict monitoring of both financials and staff numbers. New salary bands introduced from 1 April 2012. Formal sickness & overtime monitoring. Separate control on agency staff. Part of National Agreement.
Pensions Funding	£23m deficit	1	4	4	1% change in employers contribs = £105k. 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.

Appendix A

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	£0.7m	3	3	9	20% reduction would be £140k.	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	£2.1m	2	4	8	20% reduction would be £421k	General economic conditions	Current year income is 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	Continue to monitor and review.

Appendix A

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	£0.5m	3	2	6	Up to £400k 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.
Interest Rates	£0.173m 12/13 budget	2	4	8	£85k per 0.5%.	Large cash variance from small rate changes. Reducing availability of suitable counter parties	Use of professional advisers
Investments	£36m balance at March 2011	1	5	5		Financial institutions going into administration.	Investment strategy regularly reviewed by FAG and P&G Cttee.

Appendix A

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	£1.0m	1	1	1	Annual budget is based on 25% 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	£0.7m balance at March 2012	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	£1.7m budget in plan (13/14)	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	£4.6m in 2012/13	5	4	20	£46k per 1% change	Government continues to reduce grant. Impact of business rates retention policy. Only 1 year settlement in 2015/16. Austerity measures extended to 2017/18.	Adequate level of General Reserve held.

Appendix A

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	£9.3m CTAX income in 12/13	4	3	12	£93k per 1% capping reduction	Council tax freeze offers from Govt. Council tax increases limited to 2% Impact on council tax base from Local CTAX schemes.	Draft 10-year budget includes council tax increase assumptions for future years.
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	10% increase would be £50k	Changes in global oil prices.	Continue to monitor fuel usage and efficiency. Vehicle replacement programme.
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 2012/13 £000	Plan 2013/14 £000	Plan 2014/15 £000	Plan 2015/16 £000	Plan 2016/17 £000	Plan 2017/18 £000	Plan 2018/19 £000	Plan 2019/20 £000	Plan 2020/21 £000	Plan 2021/22 £000	Plan 2022/23 £000	Cumulative £000
Expenditure												
Net Service Expenditure c/f	13,771	13,443	13,768	14,822	15,270	15,691	16,095	16,357	16,729	17,094	17,433	
Inflation	468	621	633	565	564	566	563	558	552	339	338	
Superannuation Fund deficit: actuarial increase	0	0	520	0	0	0	0	0	0	0	0	
Net savings (approved in previous years)	(796)	(436)	(119)	(117)	(143)	(162)	(301)	(186)	(187)	0	0	
New growth and savings	***0***	***140***	***20***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	
Net Service Expenditure b/f	**13,443**	**13,768**	**14,822**	**15,270**	**15,691**	**16,095**	**16,357**	**16,729**	**17,094**	**17,433**	**17,771**	
Financing Sources												
Government Support (1)	(4,646)	(3,788)	(3,542)	(3,412)	(3,338)	(3,307)	(3,406)	(3,508)	(3,613)	(3,721)	(3,833)	
New Homes Bonus (less Big Community Fund)		(856)	(1,156)	(1,456)	(1,756)	0	0	0	0	0	0	
Govt Support - to be passed on to Towns/Parishes		(274)	(282)	(293)	(305)	(317)	(330)	(343)	(357)	(371)	(386)	
Govt Support - passed on to Towns/Parishes		274	282	293	305	317	330	343	357	371	386	
Council Tax	(9,251)	(8,729)	(8,991)	(9,351)	(9,725)	(10,114)	(10,519)	(10,940)	(11,378)	(11,833)	(12,306)	
Council Tax Support grant		(734)	(756)	(786)	(769)	(762)	(785)	(809)	(833)	(858)	(884)	
Interest Receipts	(173)	(229)	(234)	(356)	(375)	(351)	(317)	(286)	(260)	(239)	(221)	
Contributions to Reserves	330	699	330	330	330	330	330	330	330	330	408	
Contributions from Reserves	(536)	(795)	(525)	(522)	(519)	(517)	(513)	(512)	(509)	(506)	0	
Total Financing	**(14,276)**	**(14,432)**	**(14,874)**	**(15,553)**	**(16,152)**	**(14,721)**	**(15,210)**	**(15,725)**	**(16,263)**	**(16,827)**	**(16,836)**	
Budget Gap (surplus)/deficit	**(833)**	**(664)**	**(52)**	**(283)**	**(461)**	**1,374**	**1,147**	**1,004**	**831**	**606**	**935**	**3,604**
Contribution to/(from) Stabilisation Reserve	**833**	**664**	**52**	**283**	**461**	**(1,374)**	**(1,147)**	**(1,004)**	**(831)**	**(606)**	**(935)**	**(3,604)**
Unfunded Budget Gap (surplus)/deficit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Remaining balance / (shortfall) in Budget Stabilisation reserve: 82

Assumptions

Government Support: -14% in 13/14, -7% in 14/15, -4% in 15/16, -2% in 16/17, -1% in 17/18, +3% later years
Council Tax: 1.99% in 13/14, 3% in 14/15, 4% later years
Interest Receipts: 0.8% in 13/14 and 14/15, 1.2% in 15/16, 1.3% later years (based on Sector Bank Rate forecast + 0.3%)
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: 3.5% in all years

Note 1 Government Support includes Council Tax Freeze Grants

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FORWARD PROGRAMME FOR FINANCE ADVISORY GROUP

Topic	24 January 2013	27 March 2013	June 2013	July 2013	October 2013
Annual Accounts			Provisional Outturn 2012/13 and Carry Forward Requests	Draft Statement of Accounts 2012/13	
Budget	Risks and Assumptions for Budget 2013/14				Financial Prospects
Financial Monitoring	December 2012 Results	February 2012 Results		June 2012 Results	September 2012 Results
Financial Performance Indicators	December 2012	February 2012	March 2013 and April 2013	June 2012	September 2012
Treasury Management	Treasury Management Strategy 2013/14			Investment Strategy Update	
Invitee		Development Control	Revenues and Benefits		
Other	Costs and Savings in Partnership Working Pensions Investments				