Public Document Pack

TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

Chief Executive
Julie Beilby BSc (Hons) MBA

Gibson Building
Gibson Drive
Kings Hill, West Malling
Kent ME19 4LZ
West Malling (01732) 844522

To: MEMBERS OF THE COUNCIL

Dear Sir/Madam

I hereby summon you to attend a meeting of the Tonbridge and Malling Borough Council which will be held in the Civic Suite, Gibson Building, Kings Hill, West Malling on Tuesday, 18th February, 2014 at 7.30 pm, when the following business is proposed to be transacted:-.

1. Apologies for absence

2. Declarations of interest

   To declare any interests in respect of recommended items

3. Minutes

   To confirm as a correct record the Minutes of the meeting of Council held on Tuesday 5 November 2013

4. Mayor's Announcements

5. Election of Member for Borough Green and Long Mill Ward — 5 - 6

6. Political Balance Arrangements for Committees — 7 - 10

7. Recorded Votes at Budget Meetings — 11 - 16

8. Questions from the public pursuant to Council Procedure Rule No 5.6

9. Questions from the Members pursuant to Council Procedure Rule No 5.5

10. Leader's Announcements

11. Reports, Minutes and Recommendations

To receive and consider reports, minutes and recommendations from the meetings of the Cabinet and Committees set out in the Minute Book and officers' reports on any matters arising from them, and to receive questions and answers on any of those reports. Matters for recommendation to the Council are indicated below at items 12 to 19.

21. Sealing of Documents

To authorise the Common Seal of the Council to be affixed to any Contract, Minute, Notice or other document requiring the same.

JULIE BEILBY
Chief Executive
Monday, 10 February 2014

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TONBRIDGE & MALLING BOROUGH COUNCIL

COUNCIL

18 February 2014

Report of the Chief Executive and Returning Officer

Part 1- Public

Matters For Information

1 ELECTION OF MEMBER FOR BOROUGH GREEN & LONG MILL WARD

1.1 Result of By-Election

1.1.1 Following the creation of a vacancy of Borough Councillor for the Borough Green & Long Mill Ward, caused by the resignation of Cllr David Evans, an election was held on Thursday 9 January 2014.

1.1.2 The result of the election was as follows:-

Victoria Hayman (Labour)	84
Stuart Keith Murray (Conservative)	588
Howard Porter (Green Party)	68
Mike Taylor (Independent)	692
David Leonard Waller (UK I P)	349

1.1.3 The turnout at the election was 32.5%

1.1.4 Mike Taylor was therefore elected to serve as Councillor for the Borough Green & Long Mill Ward until the next scheduled Borough Council elections in May 2015. Cllr Taylor has duly made his declaration of acceptance of office.

1.2 Legal Implications

1.2.1 None.

1.3 Financial and Value for Money Considerations

1.3.1 None.

1.4 Risk Assessment

1.4.1 None.

1.5 Equality Impact Assessment

1.5.1 None required.

Background papers: contact: Richard Beesley

Nil

Julie Beilby
Chief Executive and Returning Officer

TONBRIDGE & MALLING BOROUGH COUNCIL

COUNCIL

18 February 2014

Report of Director of Central Services and Monitoring Officer

Part 1- Public

Matters For Decision

1 POLITICAL BALANCE ARRANGEMENTS FOR COMMITTEES

To determine the political balance arrangements to be applied to the Council's committees, sub-committees, advisory boards and panels following the by-election for Borough Green and Long Mill.

1.1.1 Under section 15 of the Local Government and Housing Act 1989 (duty to allocate seats to political groups) and the Local Government (Committees and Political Groups) Regulations 1990, the Council is required to review the composition of any of its committees and sub-committees to which those provisions apply at the annual meeting of the Council and after any election.

1.1.2 Further to the Returning Officer's report on the result of the by-election for the Borough Green and Long Mill ward, the number of seats now held by each of the political parties is as follows:

Conservative	47	(88.68%)
Liberal Democrat	4	(7.55%)
Labour	1	(1.89%)
Independent	1	(1.89%)

1.1.3 The Council is required to determine the composition of its committees so as to reflect this political balance and to ensure that the total number of seats which are allocated to each political group bears the same proportion to the number of all the seats on those committees as is borne by the number of members of that group to the membership of the Council ie 194 seats allocated 172 Conservative, 14 Liberal Democrat, 4 Labour, 4 Independent. The table below shows the number of committees etc of various sizes which need to be politically balanced and the way in which the total number of available seats might be allocated to reflect the proportions on the Council as a whole. In consequence, it is suggested that those committees requiring to be politically balanced be composed as follows which in simple terms would involve a transfer of 4 seats from the Conservative Group to the Independent Member:

Size of Committee	Conservative	Liberal Democrat	Labour	Independent
18 (x1) O&S	16 (15.96)	1 (1.36)	**1* (0.34)	**0* (0.34)
15 (x1) L&A	13 (13.30)	1 (1.13)	**0* (0.28)	**1* (0.28)
14 (x1) GP	13 (12.42)	1 (1.06)	0 (0.26)	0 (0.26)
13 (x9) Stnds & ABs	*#12* (11.53)	**1* (0.98)	**0* (0.25)	**0* (0.25)
9 (x2)	8 (7.98)	**1* (0.68)	**0* (0.17)	**0* (0.17)
7 (x1) Audit	6 (6.21)	1 (0.53)	0 (0.13)	0 (0.13)
5 (x1)	4 (4.43)	**0* (0.38)	**1* (0.09)	**0* (0.09)
Total no seats = 194	172	14	4	4
	# 12 (x5) 11 (x4)	** 1 seat allocated to LibDem or Lab or Ind plus 4 seats from#*		

1.2 Membership of Committees etc

1.2.1 Details of proposed changes to the membership of committees etc will be circulated before the meeting for endorsement by the Council.

1.3 Legal Implications

1.3.1 The Council is required to review the composition of its committees in accordance with the Local Government and Housing Act 1989 (duty to allocate seats to political groups) and the Local Government (Committees and Political Groups) Regulations 1990.

1.4 Financial and Value for Money Considerations

1.4.1 Not applicable.

1.5 Risk Assessment

1.5.1 Not applicable.

1.6 Equality Impact Assessment

1.6.1 See 'Screening for equality impacts' table at end of report

1.7 Recommendations

1.7.1 RECOMMENDED that:

1) the composition of all committees, sub-committees, advisory boards and panels be approved in accordance with the table at paragraph 1.1.3; and

2) the Monitoring Officer be authorised to make any consequential amendments to the Council's constitution.

Background papers:

Nil

contact: Claire Fox
Adrian Stanfield

Adrian Stanfield
Director of Central Services and Monitoring Officer

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	The decision is an internal procedural matter for the Council.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	As above.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		Not applicable.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.

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TONBRIDGE & MALLING BOROUGH COUNCIL

COUNCIL

18 FEBRUARY 2014

Report of the Director of Central Services & Monitoring Officer

Part 1- Public

For decision

1 RECORDED VOTES AT BUDGET MEEETINGS

1.1 Introduction

1.1.1 On 31 January 2014 Regulations were laid before Parliament to require that all budget decisions taken by local authorities should now be subject to a recorded vote. The rationale for making these Regulations is set out in the covering letter from Brandon Lewis MP, a copy of which is attached as **Annex 1**.

1.1.2 The new requirements apply to any votes taken at a 'budget decision meeting' of a local authority. This means that a vote on any decision related to the calculation of the Council Tax, or the issuing of a precept, must now be recorded.

1.2 Proposed amendments

1.2.1 The existing requirements relating to recorded votes are contained within paragraph 8 of the Council and Committee Procedure Rules. Whilst these make provision for 2 members of the Council to require a recorded vote, there are no circumstances in which a recorded vote is otherwise mandatory.

1.2.2 The proposed amendments to the Council and Committee Procedure Rules are attached as **Annex 2**. These meet the requirements of the 2014 Regulations.

1.3 Legal Implications

1.3.1 The amendments to the Council and Committee Procedure Rules are required by the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014. The requirements of the Regulations come into force on 25 February 2014.

1.4 Financial and Value for Money Considerations

1.4.1 None arising from this report.

1.5 Risk Assessment

1.5.1 None arising from this report.

1.6 Equality Impact Assessment

1.6.1 Please see 'Screening for Equality Impacts' table below.

1.7 Recommendations

1.7.1 Members are asked to **APPROVE** the proposed amendments to the Council and Committee Procedure Rules.

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	N/A	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

Background papers: contact: Adrian Stanfield

None

Adrian Stanfield

Director of Central Services & Monitoring Officer

Department for
Communities and
Local Government

Brandon Lewis MP
Parliamentary Under Secretary of State

Department for Communities and Local Government
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04 February 2014

The Leader
Principal Councils in England

Dear Leader

Recorded Votes at Budget Meetings

In the coming weeks, your council will be holding its annual budget meeting at which it will be formally taking decisions about its expenditure on local services and council tax levels for the year ahead. These discussions will affect the lives and household budgets of all who live in the council's area. Local people should be able to see how those they have elected to represent them have voted on these critical decisions.

Accordingly I am writing to you today to say that the Government's expectation is that at this year's budget meetings, all councils will adopt the practice of recorded votes – that is recording in the minutes of the meeting how each member present voted – on any decision relating to the budget or council tax. People will thus be able to see how their councillors voted, not only on the substantive budget motions agreeing the budget, setting council taxes or issuing precepts, but also on any amendments proposed at the meeting.

We are very clear that any serious commitment to transparency and democratic accountability, which I am confident we all share, demands nothing less in today's circumstances. I know that the practice of recorded votes is already being followed in a range of circumstances across councils. If local people are to continue to have confidence in their councils and their elected representatives, then the practice of recorded votes needs to be followed everywhere on this year's budget decisions.

To facilitate this, we have last week made 'The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014'. These Regulations make it mandatory for councils as soon as is practicable after the Regulations are in force, to amend their Standing Orders so as to include provisions requiring recorded votes at budget meetings.

I recognise that some councils may be holding budget meetings before they have formally amended their Standing Orders, but nothing prevents the council from simply resolving to holding a recorded vote, in line with the Regulations.

BRANDON LEWIS MP

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ANNEX 2

(Amendments shown underlined in italics)

8. Voting

8.1 Unless this Constitution or the law provides otherwise, any matter will be decided by a simple majority of those members present and voting at the time the vote is taken.

8.2 If there are equal numbers of votes for and against, the Mayor will have a second or casting vote. There will be no restriction on how the Mayor chooses to exercise a casting vote.

8.3 The Mayor will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.

8.4 If, before the vote is taken, two members present at the meeting require it, the names for and against the motion or amendment or abstaining from voting will be taken down in writing and entered into the minutes.

8.5 <u>*Decisions taken at a budget decision meeting of the Council shall be subject to a recorded vote. For the purposes of this paragraph a 'budget decision meeting' shall have the meaning set out in the Local Authorities (Standing Orders) (England) Regulations 2001 as amended.*</u>

Rules for the conduct of recorded votes

When a recorded vote is requisitioned, each Member shall indicate his/her vote on an individual voting paper and will sign his/her name.

The Mayor will declare the result of a recorded vote, but the names of those voting or abstaining will not be read to the Council, but shall be entered in the minutes.

Any Member of the Council is entitled to inspect any used voting paper in the Chief Executive's office during normal office hours.

The Chief Executive may destroy all used voting papers that have been in his custody for not less than six months from the date of the meeting at which the recorded vote took place.

8.6 Where any member requests it immediately after the vote is taken, their vote will be so recorded in the minutes to show whether they voted for or against the motion or abstained from voting.

8.7 <u>*Immediately after any vote is taken at a budget decision meeting of the Council there will be recorded in the minutes of the proceedings of that meeting the names of the members who cast a vote for the decision or against the decision or who abstained from voting.*</u>

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TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

28 January 2014

Report of the Chief Executive

Part 1- Public

Matters for Recommendation to Council

1 OVERVIEW AND SCRUTINY COMMITTEE – ANNUAL REPORT

To receive and endorse a report on the business undertaken by the Committee over the past year.

1.1 Background

1.1.1 In June 2013, the Council's Annual Governance Statement for 2012-13 was presented to the Audit Committee. This identified areas in which governance arrangements could be further enhanced. One of the action points agreed was:

Overview & Scrutiny Committee annual reporting – the Council is considered to have a robust and active scrutiny function, however it is considered that transparency could be further improved if this committee published an annual report on its activities.

1.1.2 This report therefore sets out a draft Annual Report for endorsement by the Committee and for referral to Council. The draft report is attached as Annex 1.

1.2 Legal Implications

1.2.1 None

1.3 Financial and Value for Money Considerations

1.3.1 As addressed via individual reviews.

1.4 Risk Assessment

1.4.1 n/a

1.5 Equality Impact Assessment

1.5.1 See 'Screening for equality impacts' table at end of report

1.6 Recommendations

1.6.1 That the draft Overview and Scrutiny Annual Report, as attached as Annex 1, **BE ENDORSED.**

Background papers: contact: Mark Raymond

Nil

Julie Beilby
Chief Executive

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	This report deal with internal procedures only.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	-	-
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.

Annex 1

Annual Report
of the
Overview and Scrutiny Committee

Overview and Scrutiny Committee – 28th January 2014

1. Background

1.1 This report sets out a summary of the activities and work undertaken by the Overview and Scrutiny Committee over the 2013 calendar year. Full details of all of the reviews undertaken and other matters considered by the Committee over this period are set out in the relevant agenda papers and minutes.

1.2 During 2013, there were three programmed meetings of the Committee held on the following dates: 29th January; 11th June and the 10th September. In addition to these formal meetings, a number of informal scrutiny review group meetings were arranged under the chairmanship of the Committee's two Vice-Chairmen. These met outside of the normal meeting calendar to look at specific issues in more detail prior to the matter under consideration being dealt with by the fill Committee. This form of working has enabled the Committee to undertake a wider range of review work over the year and has enabled Members to investigate relevant issues in greater detail. It is expected that this style of working will be carried forward into 2014.

1.3 Set out below are details of the each of the Committee's main meetings and a brief description of the work undertaken.

2. Overview and Scrutiny Committee Meeting – 29th January 2013

2.1 The agenda of this meeting was dominated by 'overview' items ie matters of Council policy and budgetary matters that required review and endorsement prior to their formal consideration by the Cabinet. The following matters were discussed:

- Revenue Estimates 2013/14
- Capital Plan Review 2012/13
- The Kent Joint Municipal Waste Strategy
- The Food and Safety Team Service Plan 2012-2016
- The Council's Housing Strategy 2013-2016
- The Housing and Council Tax Benefits Anti-Fraud Policy
- The Anti Fraud and Corruption Policy.

2.2 A further report to the Committee was submitted in relation to the work of the two on-going scrutiny review groups which were established at the previous meeting of the Committee in September 2012. These reviews were focused on parking management issues and value for money issues in relation to council printing and mileage rates. As further work on the parking review was required, it was agreed that the final report on this issue would be made to the June meeting of the Committee. The review group on value for money issues concluded that any review of staff mileage rates should be deferred pending the outcome of Joint National Council negotiations on this matter and that this should be a matter for the General Purposes Committee to consider. Issues related to Council printing were taken forward by a new review group focusing on Here and Now and the Council's Leisure Guide.

3. Overview and Scrutiny Committee Meeting – 11th June 2013

3.1 This meeting received the final report of the review group investigating parking management issues and a number of recommendations were considered and endorsed. It was agreed that such matters would be taken forward by the Planning and Transportation Advisory Board.

3.2 A further report on the Housing and Council Tax Benefits Anti-Fraud Policy was submitted drawing attention to additional amendments suggested by the Audit Committee. The Policy, with these amendments, was endorsed and was referred to Council for formal adoption.

3.3 The Committee also considered a draft of the Council's Corporate Performance Plan 2012/15. The Plan included a review of progress after the first year of its three year term, with further progress expected in the second and third years. It was reported that the updated Plan showed extremely good progress during its first year based against the improvement themes, assessment of performance indicator results against targets and comparison of year on year indicator results. The Committee noted that the Corporate Performance Plan was a principal means of driving performance improvement and delivery for money. It communicated clearly to Members, staff, stakeholders and residents the Borough Council's key priorities and targets, how the priorities and targets were achieved and where the Borough Council was looking to improve and was also an important tool to measure, assess and challenge performance, priorities and objectives. The Plan was endorsed and commended to the Cabinet for further consideration and adoption.

3.4 A report was submitted by the Management Team which a suggested different approach to the future Scrutiny review process. This was driven by the necessity for the Borough Council to identify and implement considerable financial savings to achieve targets set out in the Medium Term Financial Strategy over the next six years. It was intended that the Overview and Scrutiny Committee would have a key and influential role in the evaluation of a range of potential future financial savings.

3.5 It was agreed that two review groups would be established to look in detail at media and communications (including Here and Now) and alternatives to printed council agenda papers and the increased use of IT.

4. Overview and Scrutiny Committee Meeting – 10th September 2013

4.1 Meetings of the two review groups had taken place prior to the September Committee meeting and final reports of these groups were submitted to the Committee for further consideration.

4.2 The review group looking at Media and Communications recommended that Here and Now be discontinued from April 2014 given the substantial annual savings that could be achieved which were estimated to be in the order of £60,000 pa. It was further recommended that an exit strategy be prepared focusing on the need to develop more innovative forms of communication with local residents and businesses and developing closer working relationships with local media teams. The recommendations were endorsed and commended to the Cabinet.

4.3 The review group looking at the printing of council agendas recommended that tablets should be introduced for Members and senior staff and that the printing of Council agendas and their distribution by courier should cease. It was found that such a change could result in annual savings in the order of £25,000. The recommendations were endorsed and commended to the Cabinet.

4.4 A report setting out further value for money issues for the Overview and Scrutiny Committee to consider was also made. This recommended that two new review groups should be established to investigate concessionary fees and charges for those on benefit, and budgets in the Council's capital plan for disabled facilities grants and other forms of housing assistance.

4.5 By the end of the calendar year, both review groups had met and recommendations from each were due to be considered at the next meeting of the Overview and Scrutiny Committee held on 28th January 2014.

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

04 February 2014

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15

The report provides details of investments undertaken and returns achieved in the first nine months of the current financial year. Members are invited to consider amending the current split of investment responsibilities for in-house and externally managed funds. The report concludes with a recommendation to adopt the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15.

1.1 Introduction

1.1.1 The Local Government Act 2003 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'.

1.1.2 The Act also requires the Council to set out its Treasury Management Strategy Statement for borrowing and to prepare an Annual Investment Strategy; setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.1.3 The Strategies are set out in a single document at **[Annex 3]** to this report.

1.1.4 The portfolio of the Audit Committee includes the review of treasury management activities. Accordingly, that Committee was asked to review the matters covered by this report and **[Annex 3]** on 27 January 2014. Due to timing issues it will be necessary to verbally report upon any recommendations and observations made by the Audit Committee.

1.1.5 The Strategy is a complex technical document and is a specialist area of work, I should be grateful if Members could **raise any queries with the author of this report (Michael Withey ext. 6103) in advance of the meeting as Michael will not be present on 4 February**.

1.2 Return on Investments

1.2.1 In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. We find ourselves in a very difficult investment market. Yields are very low, in line with the 0.5% Bank Rate and have been suppressed further in recent months by the Bank of England's 'Funding for Lending' scheme introduced to support economic recovery. As a consequence, investment returns are expected to remain low relative to pre 2008 financial crisis levels throughout the remainder of this financial year and the next (2014/15).

1.2.2 Cash flow funds are available on a temporary basis and their amount varies from month to month and during the course of each month dependent on the timing of receipts (collection of business rates, council tax, grants and other sources of income) and payments (to government, precepting authorities, housing benefit recipients, staff and suppliers). The authority holds £15.4m of core cash balances for investment purposes which are managed by our external fund manager. These funds which comprise our revenue and capital reserves are for the most part available to invest for more than one year.

1.2.3 At the end of December 2013 funds invested and interest earned is set out in the table below:

	Funds invested at 31 Dec 2013 £m	Average duration to maturity Yrs	Weighted average rate of return %	Interest earned to 31 Dec 2013 £	Gross annualised return to 31 Dec 2013 %	7 day Libid benchmark %
In-house cash flow excluding Landsbanki	8.0	0.12	0.77	55,600	0.68	0.41
Externally managed core funds	15.4	0.81	0.60	65,000	0.56	0.41
Total	23.4	0.57	0.66	120,600	0.61	0.41

1.2.4 Whilst the authority bettered the 7 day LIBID benchmark by 20 basis points interest earned of £120,600 is £58,600 lower than our 2013/14 original estimate for the same period. This underperformance against budget is mainly attributed to the lower than expected return delivered by our external fund manager and is explored in more detail below.

1.2.5 **In-house managed cash flow**. Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. The majority of our cash flow surpluses are invested overnight in bank deposit accounts and money market funds to ensure sufficient short term liquidity to meet payment obligations.

However, when cash surpluses permit, fixed term investments are made to take advantage of the higher yields available. Thus far in this financial year the following fixed term investments have been made:

£m	Bank/Building Society	Duration	Rate	Period
1.0	Bank of Scotland	12 Months	1.10%	12/4/13 – 11/4/14
1.0	Lloyds TSB	12 Months	1.10%	12/4/13 – 11/4/14
0.6	Lloyds TSB	11 Months	1.05%	12/4/13 – 11/3/14

1.2.6 In addition to term deposits the opportunity to generate additional yield is also achieved by utilising notice accounts. At 31 December 2013, £1.0m was deposited in a National Westminster 95 day notice account at a rate of 0.60% per annum and £1.0m deposited in a 35 day notice account with Barclays at 0.54% per annum.

1.2.7 The Council achieved a return of 0.68% on its in-house managed cash flow investments for the period ended December 2013, compared to a 7-day LIBID benchmark of 0.41%. However, in cash terms investment income achieved fell short of budget by £7,600. Our revised estimates assume income for the year of £72,000 implying a shortfall against the original 2013/14 estimate of £9,800 for the year as a whole.

1.2.8 **Externally managed core funds**. In accordance with our 2013/14 Investment Strategy all of the Council's core funds are being managed by our external fund manager. The Council's fund manager achieved a gross return of 0.56% for the period ended December 2013, compared to a 7-day LIBID benchmark of 0.41%. Excluding unrealised losses on recent UK Gilt purchases of £71,000 investment income achieved for the period ended December 2013 is £65,000.

1.2.9 At the end of December 2013 the value of the fund stood at £15.4m. This was invested at an average rate of 0.60% and an average maturity of 0.81 years. The fund manager lowered their expected return for the year to 0.90% at our meeting with them in March. This return implies a shortfall against budget provision for externally managed funds of £20,000 for the year as a whole. However, given performance to date coupled with no real prospect of an improvement in yields for the remainder of this financial year a return of 0.60% is considered more realistic. Our revised estimates for this financial year have been prepared using this lower return and anticipate income for the year as a whole will be £92,400. This represents a shortfall against the original estimate of £61,850.

1.2.10 **Current investment position**. A full list of investments held on 31 December 2013 is provided at **[Annex 1]** of this report and a copy of our internal lending list of the same date is provided at **[Annex 2]**. The yields on the total sum invested of £23.4m exclusive of Landsbanki is 0.66% comprising internally managed investments of £8.0m at 0.77% and externally managed investments of £15.4m at 0.60%.

1.3 Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15

1.3.1 **Risk appetite**. Three years ago Members supported a rationalisation of our counterparty and non-UK sovereign exposure limits around a single figure of 25% and applied the result to both the in-house and externally managed portfolios. At that time Members also reviewed and made a modest amendment to the minimum credit criteria taking it to Fitch long term AA- (very high), short term F1+ (exceptionally strong). Two years ago, in response to an avalanche of downgrades to bank credit ratings, Members supported a lowering of our minimum counterparty credit criteria to Fitch A (high), F1 (strong) and provided some offset by reducing our counterparty and non-UK sovereign exposure limits to 20%. Audit Committee in October 2012 recommended that the exposure limits for investment in the UK nationalised / part nationalised banks revert back to a maximum of 25% per bank / group and also lowered our minimum AAA (highest) sovereign requirement for the UK to Fitch AA- (very high) or equivalent. That AA- requirement was extended to all sovereigns in the current investment strategy.

1.3.2 Officers are content that the current criteria to invest in highly rated financial institutions regulated by similarly rated sovereigns is considered appropriate to safeguard the authority's interests and provides an appropriate balance between the security and diversity of our investments and the desire to generate an income stream. As a consequence, **no changes to the minimum sovereign / counterparty credit rating or exposure limits are proposed in the Annual Investment Strategy for the 2014/15 financial year**.

1.3.3 **Management of cash flow and core funds**. The Council splits the funds available for investment into two categories, core funds and cash flow funds. Core funds comprise the Council's revenue and capital reserves which are used to support the Council's spending plans over a number of years. Cash flow funds are monies consumed during the course of a financial year and arise from timing differences between the receipt of income and its subsequent expenditure to meet payment obligations.

1.3.4 The 2013/14 Investment Strategy requires that all core funds are managed by our external fund manager. Cash flow funds that are available for more than three months should also be passed to the external fund manager unless a better return can be achieved via in-house investment without undue added risk. In each of the last three years, in-house investment has been the preferred option for investing such surpluses. **The 2014/15 Annual Investment Strategy presumes all cash flow funds will be managed in-house with no requirement to transfer funds to the external fund manager**.

1.3.5 In 1991 the Council sold its stock of council houses. The sale proceeds enabled the Council to repay all borrowing and the balance (over £50m) has been used ever since to fund the Council's capital expenditure plans and provide an income stream from investments to support the revenue budget. Some £8m of sale proceeds remains today and forms part of the core funds managed by our external fund manager. The core fund balance, currently £15.4m, is expected to average £11.4m during 2014/15 and the Council's Treasury Management Team are of the view that the core fund is now of a size that its investment can be managed in-house.

1.3.6 External fund management has enabled the Council to maintain a well diversified portfolio with investments in numerous high quality financial institutions. The fund manager's longer term exposure to banks has generally been via certificates of deposit (CDs) which are preferred by some institutions. CDs can be traded on secondary markets and thus provide a source of liquidity should the need arise. In-house longer term investment in banks has in the past been via broker or directly arranged fixed term deposits. Such deposits, as their name implies, are fixed for the duration. Early redemption of fixed term deposits may be possible in some cases but not without penalty. The Council has now secured a custody facility via King & Shaxon to enable CDs and other market tradable instruments (e.g. Gilts and Treasury Bills) to be acquired (and sold) direct. The addition of this facility will, subject to counterparty investment limits, ensure the Council continues to have access to a broad range of high quality institutions.

1.3.7 UK Gilts are seen as a safe haven in times of market stress. In the past our external fund manager has been able to take advantage of 'blips' in Gilt prices that the market stress (caused by an event) generates to make additional income by trading Gilts. In the first nine month of this financial year, whilst there have been opportunities to generate capital profits on Gilt trades (e.g. US budget / debt ceiling negotiations), they have not been taken. Going forward Gilt yields are expected to rise in anticipation of interest rate increases. Our external treasury advisor, Capita, are of the view that whilst there may be geo-political factors that result in Gilts being treated as a safe haven investment option by investors such opportunities are less likely in the medium term. Moreover, the current gilt holding (£2m maturing in 2018) that was acquired in May and June of this year is currently recording an unrealised loss of some £71,000. To avoid that loss materialising the investment will need to be maintained to maturity. The yield at purchase of 1.16% whilst attractive given current interest rates is likely to underwhelm in three and four years time.

1.3.8 In-house management of cash flow surpluses involves on average five investments per day (a mix of new investments, recalling existing investments and or repeating the previous day's investments). Management of the core fund is expected to involve only two / three investments each month which can be readily absorbed within the existing in-house staff resource. In addition, although the overriding motivation for in-house management of the core fund is its diminishing size, the transfer will generate a saving in external fund management fees. The fees payable on a portfolio of £11.4m will be circa £17,000 and provide a useful contribution to the Council's revenue savings targets.

1.3.9 Whilst a specific date for the transfer of responsibility has yet to be determined the expectation is that **by the end of the 2014 /15 financial year all core fund investments will be managed in-house**.

1.3.10 **External treasury advisor's recommended duration**. Our advisor's assessment of counterparty creditworthiness assigns financial institutions to a duration band. The bands for those institutions considered appropriate for local authority investment range from 100 days to five years. Institutions which are considered inappropriate for investment are assigned a nil duration. The assessment incorporates a market view of risk using credit default swap data. A credit default swap (CDS) can be likened to insurance taken out by investors to guard against the risk of default. The aggregate value of CDS trades reached a peak at the height of the Eurozone sovereign debt crisis in December 2011 prompting the Bank of England Financial Policy Committee to warn UK banks to prepare to withstand an 'extraordinarily serious and threatening' economic environment. Since then, the European Central Bank has introduced measures to ease bank liquidity, established a mechanism to contain sovereign bond yields and made progress on a European Banking Union. The aggregate value of CDS trades has been on a downward trajectory since December 2011 and is now broadly in line with levels pre the 2008 financial crisis.

1.3.11 The CDS data for individual banks has generally followed the same downward trajectory described above. However, in recent weeks and on a limited number of occasions, the fall in CDS data for Barclays Bank has failed to keep pace with the fall in the aggregate value of CDS trades. This has resulted in Barclays CDS data being elevated above the norm triggering a change in Capita's duration recommendation from 100 days, based on credit ratings alone, to nil days when CDS data is also taken into consideration. The 'nil duration' applied at the time of writing this report and explains why Barclays, which has featured on our lending list in previous reports to Audit Committee, is absent from our lending list of 31st December **[Annex 2]**. In recent months 'blips' in CDS data have affected other counterparties on our lending list in a similar fashion including the Nationwide Building Society and Santander UK.

1.3.12 Our current Investment strategy requires that at the time an investment is placed we use Capita's duration recommendation to 'determine' the duration of an investment. **The strategy for 2014/15 introduces a degree of flexibility and requires that Capita's recommended duration is used to 'inform' the duration of an investment**. This flexibility will be incorporated into our detailed Treasury Management Practices that support the Annual Investment Strategy. The flexibility will be limited to Capita's recommended duration plus three months and will only be applied to UK financial institutions.

1.3.13 **Updated strategies**. Whilst no changes are being made to the Council's risk appetite, the proposed changes in management arrangements and investment duration flexibility have been incorporated into the Treasury Management Strategy and Annual Investment Strategy for 2014/15. Both strategies are combined into a single document and are provided at **[Annex 3]**. Except where outlined above no other material changes to the strategies have been made. A recommendation to adopt **[Annex 3]** appears at paragraph 1.9.1(6).

1.4 Money Market Fund Regulatory Changes

1.4.1 Both the Securities Commission in America and more importantly from our perspective, the European Commission are in the process of consulting on changes to the regulatory framework governing money market funds. Money market funds (MMFs) form a critical component in our daily cash flow management. They provide the same day access to cash as a traditional bank deposit account; allow surplus cash to be placed in a AAA credit rated product and; ensure our peak monthly cash balances are disbursed across a range of counterparties.

1.4.2 The current yield on a typical fund used by the Council is 0.4% and falls roughly mid-way between the yield from our bank deposit accounts at 0.6% and that offered by the UK Debt Management Office at 0.25%. Most commentators believe that if all of the proposed regulatory changes came into being, MMFs would no longer be viable. Any regulatory change will involve a ‘bedding-in period’ to allow MMFs to adapt to the new requirements. So whilst change is inevitable it is unlikely to impact on our cash management operation during 2014/15. Members will be updated as regulations develop and our existing MMFs response to those regulatory changes emerges.

1.5 Legal Implications

1.5.1 These are set out above and at **[Annex 3]** to this report. In addition, Capita are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.6 Financial and Value for Money Considerations

1.6.1 The Bank Rate is expected to remain at a historical low (0.5%) throughout the remainder of this financial year and the next (2014/15). The ‘Funding for Lending’ initiative introduced by the Bank of England in summer 2012 has had a significant downward impact on returns being offered by financial institutions. As a consequence budgeted returns for both cash flow and core funds have been revised downward for 2013/14. Similar low returns are anticipated in 2014/15 at 0.75% for cash flow and 0.85% for core funds.

1.6.2 The performance of our fund manager is monitored against all of the players in the public sector cash management market place using data provided by Capita. In addition, the performances of both externally and internally managed investments are monitored against relevant benchmarks. In-house returns are also monitored against other Kent authorities and the broader local authority pool via Capita’s benchmarking service.

1.6.3 The Council invested £1m in a three month fixed term deposit with the Icelandic bank, Landsbanki. The bank went into administration a few days prior to the investments intended maturity in October 2008. The Council has participated in a joint action, co-ordinated by the Local Government Association, to recover the investment and associated interest. To date the Council has received £542,700 in partial payments from the Landsbanki Winding-up Board. Members are referred to the Part 2 report submitted to Audit Committee 7 October 2013 detailing current recovery action.

1.7 Risk Assessment

1.7.1 Capita are employed to advise on the content of the Treasury Management Strategy Statement and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.

1.7.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits need to be established to ensure an appropriate level of diversification.

1.7.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2014/15 Strategy have been minimised.

1.8 Equality Impact Assessment

1.8.1 See 'Screening for equality impacts' table at end of report.

1.9 Recommendations

1.9.1 Cabinet are invited to consider and **RECOMMEND** that full Council:

1) note the treasury management position as at 31 December 2013;

2) retain the current minimum counterparty credit ratings and the current maximum sovereign / counterparty exposure limits.

3) agrees all cash flow funds in 2014/15 be managed in-house with no requirement to transfer funds to the external fund manager;

4) agrees to the transfer of responsibility for the Council's core fund investments from the external fund manager to in-house management during 2014/15;

5) allows some flexibility over the duration of investments placed with UK financial institutions as outlined in paragraph 1.3.12;

6) adopts the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15 set out at **[Annex 3]**.

Background papers: contact: Michael Withey

Templates and forecasts provided by Capita
Fitch Rating Definitions.

Sharon Shelton
Director of Finance and Transformation

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	N/A
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	N/A
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.

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Annex 1

Investment Summary as at 31 December 2013

Counterparty	Sovereign	Fitch Credit rating: Long Term	Short Term	Viability	Support	Investment type (Specified/Non-specified) [Statement date to Maturity]	Investment from	Maturity Date	Investment at purchase value £	Coupon Rate of return	% of total investments	Instrument type	Managed by:	Externally Managed Core Funds £	Internally Managed Cash Flow £	Non-specified Investments (NSI) £
Bank of Nova Scotia		AA-	F1+	aa-	1	Specified	03/12/2013	03/03/2014	1,000,000	0.43%		CDs	Externally Managed	1,000,000		
Bank of Nova Scotia Total	Canada								**1,000,000**		4.18%					
Bank of Scotland		A	F1	-	1	Specified	12/04/2013	11/04/2014	1,000,000	1.10%		Fixed deposit	**Internally Managed**		1,000,000	
Bank of Scotland Total	UK								**1,000,000**		4.18%					
Barclays Bank 35 Day Notice		A	F1	a	1	Specified	09/08/2013	17/03/2014	1,000,000	0.54%		Call - Notice	**Internally Managed**		1,000,000	
Barclays Bank Total	UK								**1,000,000**		4.18%					
Commonwealth Bank of Australia		AA-	F1+	aa-	1	Specified	20/11/2013	20/03/2014	600,000	0.48%		CDs	Externally Managed	600,000		
Commonwealth Bank of Australia Total	Australia								**600,000**		2.51%					
Deutsche Bank		A+	F1+	a	1	Specified	14/11/2013	14/02/2014	2,500,000	0.48%		CDs	Externally Managed	2,500,000		
Deutsche Bank Total	Germany								**2,500,000**		10.45%					
Handelsbanken		AA-	F1+	aa-	1	Specified	31/12/2013	02/01/2014	2,100,000	0.60%		Call	**Internally Managed**		2,100,000	
Handelsbanken		AA-	F1+	aa-	1	Specified	29/11/2013	30/05/2014	2,100,000	0.52%		CDs	Externally Managed	2,100,000		
Handelsbanken Bank Total	Sweden								**4,200,000**		17.56%					
ING Bank		A+	F1+	a	1	Specified	08/10/2013	08/01/2014	2,000,000	0.50%		CDs	Externally Managed	2,000,000		
ING Bank Total	Netherlands								**2,000,000**		8.36%					
Investec Sterling MF		AAA	-	-	-	Specified	31/12/2013	02/01/2014	108,000	0.37%		Call - EMF	Externally Managed	108,000		
Investec Sterling MF Total	Luxembourg								**108,000**		0.45%					
Landsbanki		-	-	-	-	Specified	30/07/2008	In default	457,000	5.86%		Fixed deposit	**Internally Managed**		457,000	
Landsbanki Bank Total	Iceland								**457,000**		1.91%					
Lloyds TSB Bank		A	F1	bbb+	1	Specified	12/04/2013	11/04/2014	1,000,000	1.10%		Fixed deposit	**Internally Managed**		1,000,000	
Lloyds TSB Bank		A	F1	bbb+	1	Specified	12/04/2013	12/03/2014	600,000	1.05%		Fixed deposit	**Internally Managed**		600,000	
Lloyds TSB Bank Total	UK								**1,600,000**		6.69%					
NatWest Bank Call Account		A	F1	-	1	Specified	31/12/2013	02/01/2014	500,000	0.60%		Call	**Internally Managed**		500,000	
NatWest Bank 95 Day Notice		A	F1	-	1	Specified	13/05/2013	17/03/2014	1,000,000	0.60%		Call - Notice	**Internally Managed**		1,000,000	
National Westminster Bank Total	UK								**1,500,000**		6.27%					
Nordea Bank (Finland)		AA-	F1+	aa-	1	Specified	08/10/2013	08/01/2014	1,900,000	0.50%		CDs	Externally Managed	1,900,000		
Nordea Bank (Finland) Total	Finland								**1,900,000**		7.94%					
Rabobank		AA	F1+	aa	1	Specified	31/12/2013	02/01/2014	10,000	0.35%		TD	Externally Managed	10,000		
Rabobank Total	Netherlands								**10,000**		0.04%					
Santander UK Plc		A	F1	a	1	Specified	31/12/2013	02/01/2014	850,000	0.80%		Call	**Internally Managed**		850,000	
Santander UK Plc Total	UK								**850,000**		3.55%					
Standard Chartered Bank		AA-	F1+	aa-	1	Specified	29/11/2013	28/02/2014	400,000	0.44%		CDs	Externally Managed	400,000		
Standard Chartered Bank Total	UK								**400,000**		1.67%					
Toronto Dominion Bank		AA-	F1+	aa-	1	Specified	28/06/2013	31/12/2013	2,000,000	0.51%		CDs	Externally Managed	2,000,000		
Toronto Dominion Bank Total	Canada								**2,000,000**		8.36%					
UK Treasury Gilt [1]		AA+	-	-	-	Non-specified	29/05/2013	22/07/2018	2,281,000	1.25%		UK Gilt	Externally Managed	2,281,000		2,281,000
UK Treasury Bill		AA+	-	-	-	Specified	16/12/2013	16/06/2014	499,000	0.36%		UK Bill	Externally Managed	499,000		
UK Treasury Total	UK								**2,780,000**		11.62%					
Investec/Citibank uninvested balance		A	F1	-	1	Specified			10,000	0.25%		F Mgr cash bal	Externally Managed	10,000		
Investec/Citibank uninvested balance									**10,000**		0.04%					
Total invested									**23,915,000**		**100.00%**			**15,408,000**	**8,507,000**	**2,281,000**

Number of investments	22	**Average investment value £**	1,087,000
Number of counter parties	18	**Average investment per counter party £**	1,329,000

Group exposures (UK Nationalised) - max 25% for core funds or £2.6m cash flow.	**Core £**	**Core %**	**Cash £**
RBS + National Westminster excluding RBS managed Global Treasury Fund	0	0.00%	1,500,000
Bank of Scotland + Lloyds TSB	0	0.00%	2,600,000

Management Split :	**£**	**%**	**NSI limit = 60% of core funds**
Externally Managed Core Funds	15,408,000	64.43%	
Internally Managed Cash Funds	8,507,000	35.57%	14.80%
Total	23,915,000	100.00%	

Notes: (Eq)=Equivalent. Investec data provided on an unaudited basis. [1]Represents date of initial purchase.

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Tonbridge and Malling Borough Council Internal Lending List as at 31 December 2013

Checked against Sector Duration Matrix dated 27/12/13

Minimum investment criteria is Sector Green (100 days) Duration Band
(entry point broadly equates to Fitch A, F1, bbb-, 1 unless UK nationalised / semi-nationalised).

Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Fitch Viability	Fitch Support	Exposure Limit	Sector Duration [2]
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	aa-	1	£2.1m	12 months
HSBC Bank plc	UK	AA+	AA-	F1+	a+	1	£2.1m	12 months
Santander UK plc	UK	AA+	A	F1	a	1	£2.1m	100 days
Nationwide Building Society	UK	AA+	A	F1	a	1	£2.1m	100 days
Bank of Scotland plc [3] Group limit with BOS and Lloyds TSB of £2.6m	UK	AA+	A	F1	-	1	£2.6m	1 year
Lloyds TSB Bank plc [3] Group limit with BOS and Lloyds TSB of £2.6m	UK	AA+	A	F1	bbb+	1	£2.6m	1 year
National Westminster Bank plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	-	1	£2.6m	1 year
The Royal Bank of Scotland plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	1 year
Debt Management Office	UK	AA+	N/A	N/A	N/A	N/A	No limit	N/A
UK Local Authorities	UK	AA+	N/A	N/A	N/A	N/A	£2.1m	N/A

[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires sovereigns to be rated at least AA-.
[2] **All deposits overnight** unless otherwise approved by the Director of Finance and Transformation **AND** Chief Financial Services Officer. If other than overnight duration must not exceed Sector's recommendation.
[3] UK nationalised / semi-nationalised.

Money Market Funds

Minimum investment criteria one of AAA-mf, AAAmmf or AAAm.

Fund Name	Moody	Fitch	S&P	Exposure Limit
Blackrock	AAA-mf	-	AAAm	£2.1m
BNP Paribas	-	-	AAAm	£2.1m
Global Treasury Fund	AAA-mf	AAAmmf	AAAm	£2.1m
Goldman Sachs	AAA-mf	AAAmmf	AAAm	£2.1m
Deutsche Fund	AAA-mf	-	AAAm	£2.1m
Insight	-	AAAmmf	AAAm	£2.1m
Ignis	-	AAAmmf	AAAm	£2.1m
Morgan Stanley	AAA-mf	AAAmmf	AAAm	£2.1m
Prime Rate	AAA-mf	AAAmmf	AAAm	£2.1m

Enhanced Cash Funds

Minimum investment criteria AAA.

Fund Name	Moody	Fitch	S&P	Exposure Limit
Insight Liquidity Plus	-	-	AAAf /S1	£1.05m

Approved by Director of Finance and Transformation
31st December 2013

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Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15

1 Introduction

1.1 Background

1.1.1 Treasury management is defined 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".

1.2 Statutory requirements

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

1.2.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included at Section 7 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.2.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 CIPFA requirements

1.3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 18 February 2010. In preparing this strategy due regard has also been given to subsequent revisions to the code.

1.3.2 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

1.3.3 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]** and **[Appendix 2]** respectively.

1.4 Treasury Management Strategy for 2014/15

1.4.1 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Capita Asset Services (previously known as Sector).

1.4.2 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- the current treasury position
- the borrowing requirement
- Prudential and Treasury Indicators
- prospects for interest rates
- creditworthiness policy
- the investment strategy

- policy on use of external service providers

1.5 Balanced Budget Requirement

1.5.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2 Treasury Limits for 2014/15 to 2016/17

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in **[Appendix 3]** of this report.

3 Current Portfolio Position

3.1 The Council is debt free and as such the overall treasury position at 31 December 2013 comprised only investments, which totalled £23.4m (excluding Landsbanki) generating an average return of 0.66%.

4 Borrowing Requirement

4.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 3]** borrowing will not be necessary. All capital expenditure in 2014/15 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assts.

5 Prudential and Treasury Indicators for 2014/15 – 2016/17

5.1 Prudential and Treasury Indicators as set out in **[Appendix 3]** are relevant for the purposes of setting an integrated treasury management strategy.

5.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 30 September 2003 and the revised 2009 Code was adopted by the full Council on 18 February 2010. Subsequent Code amendments are also complied with.

6 Prospects for Interest Rates

6.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **[Appendix 4]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Capita's expectation for the Bank Rate for the financial year ends (March) is:

- 2013/ 2014 0.50%
- 2014/ 2015 0.50%
- 2015/ 2016 0.50%
- 2016/ 2017 1.25%

6.2 The recession that followed the global finacial crisis of 2008 has been the deepest and recovery from it the slowest the UK has experienced in recent history. However, growth in the UK economy has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this region are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

6.3 The current economic outlook and structure of market interest rates and government debt yields have two key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are concerns over how these will be managed. Government debt to GDP ratios in some countries will continue to rise to levels that may result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated suggesting the use of higher quality counterparties for shorter time periods; and
- Investment returns are likely to remain relatively low during 2014/15 and beyond.

6.4 A more detailed view of the current economic background, provided by Capita, is contained in **[Appendix 5]**.

7 Annual Investment Strategy

7.1 Investment Policy

7.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (adopted 2009 Code and subsequent revisions). As a consequence, the Council's investment priorities are:

- the security of capital and;
- the liquidity of its investments.

7.1.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

7.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

7.1.4 Investment instruments identified for use in the financial year are listed in **[Appendix 6]** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set out at paragraph 7.3.2.

7.2 Creditworthiness Policy

7.2.1 This Council uses the creditworthiness service provided by Capita. This service has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

7.2.2 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 code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to **inform** (previously determine) the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

7.2.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Capita's weekly credit list of worldwide potential counterparties. Subject to an appropriate sovereign and counterparty rating the Council will therefore use counterparties within the following durational bands:

Yellow	5 years
Purple	2 years
Blue	1 year (nationalised or part nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 Days (previously 3 months)

7.2.4 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This approach has the potential to leave the Council with few banks on its approved lending list. The Capita creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

7.2.5 All credit ratings will be reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita 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 a downgrade of an institution or removal from the Councils lending list.

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

7.3 Country, Group and Counterparty Limits

7.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- as determined by all three rating agencies (Fitch, Moody's and Standard and Poor's). The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 7]**. This list will be added to, or deducted from; by officers should ratings change in accordance with this policy.

7.3.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality and are applicable to both cash flow and core fund investment.

Country, Counterparty and Group exposure	Maximum Proportion of Cash Flow and Core Funds
UK Sovereign (subject to a minimum rating of AA-)	100%
Each non-UK Sovereign rated AA- or better	20%
Group limit excluding UK nationalised / part nationalised banks	20%
Each counterparty rated Fitch A, F1, bbb-, 1 (green using Capita's credit methodology) or better	20%
Each UK nationalised or part nationalised bank / group	25%
Each AAA multilateral / supranational bank	20%
Each AAA rated bond fund / gilt fund / enhanced cash fund / government liquidity fund / equity fund or property fund subject to maximum 20% exposure to all such funds	10%
Each money market fund rated Moody's AAAmf, Fitch AAAmmf, Standard & Poor's AAAm	20%
Non-specified investments over 1 year duration	60%

7.3.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. For cash flow investments the limits identified in paragraph 7.3.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year.

7.4 Investment Strategy

Available funds

7.4.1 Funds available for investment are split between cash flow and core funds. Cash flow funds are generated from the collection of council tax, business rates and other income streams. They are consumed during the financial year to meet payments to precepting authorities and government (NNDR contributions) and to meet service delivery costs (benefit payments, staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Council's revenue and capital reserves and are generally available to invest for durations in excess of one year.

Cash flow investments

7.4.2 The average daily cash flow balance throughout 2014/15 is expected to be £9.3m. Of that figure some £4m is likely to be available for longer than three months. The Investment Strategy for 2013/14 required such funds (those available for longer than three months) to be passed to the Council's external fund manager unless a better rate of return could be achieved from managing those funds in-house without undue added risk. In each of the last three years, in-house management has been the preferred option and **for 2014/15 all cash flow fund investments will be managed in-house with no requirement to transfer funds to the external fund manager**.

7.4.3 Investments in respect of cash flow will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising notice accounts, term deposits with banks and building societies and enhanced cash funds.

7.4.4 In compiling the Council's estimates for 2014/15 a return on cash flow investments of 0.75% has been assumed. This return is consistent with return being achieved in 2013/14 and reflects a continuation throughout 2014/15 of the current 0.5% Bank Rate.

Core fund investments

7.4.5 During 2014/15 the Council's core funds will be part managed on a discretionary basis by the Council's external fund manager (Investec Asset Management Ltd). The fund manager is obliged to comply with the Annual Investment Strategy including the parameters established at paragraphs 7.3.1 and 7.3.2 and the schedule of specified and non-specified investments detailed at **[Appendix 6]**.

7.4.6 Historically all core funds have been managed by an external fund manager. However, the core fund balance is diminishing as a proportion is consumed each year (approximately £2.25m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2014/15 is expected to be £11.4m and the Council's Treasury Management Team are of the view that the core fund is now of a size that its investment can be managed in-house. Whilst a specific date for the transfer of responsibility has yet to be determined the expectation is that **by the end of the 2014 /15 financial year all core fund investments will managed in-house**.

7.4.7 Regardless of management responsibility (in-house or external) the Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by this Council.

7.4.8 In compiling the Council's estimates for 2014/15 a return on core fund investments of 0.85% has been assumed. This return anticipates a small uplift in yield will be generated over cash flow investment expectations (paragraph 7.4.4). Subject to the credit quality and exposure limits outlined in paragraph 7.3.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits, certificates of deposit, notice accounts and enhanced cash funds. The existing UK Gilt position is likely to be retained to maturity but not added to (yield at purchase of 1.16%, maturing 2018).

7.5 End of year investment report

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

7.6 Policy on the use of external service providers

7.6.1 The Council uses Capita as its external treasury management advisors.

7.6.2 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.

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

Appendices

1. Treasury management scheme of delegation
2. Treasury management role of the section 151 officer
3. Prudential and Treasury indicators
4. Interest rate forecasts
5. Economic background
6. Specified and Non-specified Investments
7. Approved countries for investments

Appendix 1 Treasury management scheme of delegation

(i) Full council

- budget approval.
- approval of treasury management policy.
- approval of the annual Treasury Management Strategy Statement and Annual Investment Strategy.
- approval of amendments to the Council’s adopted clauses, Treasury Management Policy Statement and the annual Treasury Management Strategy Statement and Annual Investment Strategy.
- approval of the treasury management outturn report.

(ii) Cabinet

- budget consideration.
- approval of Treasury Management Practices.
- approval of the division of responsibilities.
- approval of the selection of external service providers and agreeing terms of appointment.
- acting on recommendations in connection with monitoring reports.

(iii) Audit Committee

- reviewing the annual Treasury Management Strategy Statement and Annual Investment Strategy and making recommendations to Cabinet and Council.
- receive reports on treasury activity at regular intervals during the year and make recommendations to Cabinet.
- reviewing treasury management policy, practices and procedures and making recommendations to Cabinet and Council.

(iv) Finance, Innovation and Property Advisory Board

- receiving budgetary control reports at regular intervals that include treasury management performance.

Appendix 2 Treasury management role of the section 151 officer

The S151 (responsible) officer

- 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.

Appendix 3 Prudential and Treasury Indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2014/15 report that is to be submitted to Cabinet on 4 February 2014.

The treasury management indicators are as set out in the table below:

TREASURY MANAGEMENT INDICATORS	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that net exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	16,767 (80.5%)	It is anticipated that net exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	Nil	60% of core funds			

Maturity structure of fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

Appendix 4 Interest Rate Forecasts (November 2013)

Capita Asset Services Interest Rate View	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
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%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	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%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.10%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.30%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.10%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.30%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.30%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

Appendix 5 Economic Background Provide by Capita Asset Services

1 THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks. It looks increasingly likely that Slovenia will be the next country to need a bailout.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

USA. The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y and 2.8% in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

2 THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth stongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly

Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that:

> *"In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth".*

So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

Forward guidance. The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate currently stands at 2.5 million i.e. 7.6 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October. It is expected to fall back to reach the 2% target level within the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

3 Capita Asset Services forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, at the time of writing, the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked down the road, rather than resolved. Resolving these issues could have a significant effect on gilt yields during 2014.

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 of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed resolution of the debt crisis where EZ institutions and governments do what is necessary. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as consumer borrowing is already high and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the US Federal Budget and raising of the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy has the third highest level of government debt in the world. Given the political situation difficulties may arise in implementing austerity measures and a programme of reform.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Appendix 6 Specified and Non-specified Investments

All specified and non-specified Investments will be:

Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy.

Subject to the duration limit recommended by Capita (**+3 months for UK Financial Institutions** or as assessed by the external fund manager) at the time each investment is placed.

Subject to a maximum of 60% of core funds, in aggregate, being held in non-specified investments at any one time.

Sterling denominated.

Specified Investments (maturities up to 1 year):

Investment	Minimum Credit Criteria	Use
UK Debt Management Agency Deposit Facility	UK Sovereign AA-	In-house
Term deposits - UK local authorities	UK Sovereign AA-	In-house
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-	In-house and Fund Manager
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 or Green **excl. CDS** if in-house	In-house and Fund Manager
Certificates of deposit - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Manager
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 or Green **excl. CDS** if in-house	In-house and Fund Manager
UK Treasury Bills	UK Sovereign AA-	In-house and Fund Manager
UK Government Gilts	UK Sovereign AA-	In-house and Fund Manager
Bonds issued by multi-lateral development banks	AAA	In-house and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
1. Money Market Funds	Moody's AAAmf, Fitch AAAmmf, Standard and Poor's AAAm	In-house and Fund Manager
2. Government Liquidity Funds	AAA	In-house and Fund Manager
3. Enhanced Cash Funds	AAA	In-house and Fund Manager
4. Bond Funds excluding corporate bonds	AAA	In-house and Fund Manager
5. Gilt Funds	AAA	In-house and Fund Manager
6. Equity Funds	AAA	In-house and Fund Manager
7. Property Funds	AAA	In-house and Fund Manager

Non-specified Investments (maturities in excess of 1 year and any maturity if not included above):

Investment	Minimum Credit Criteria	Use	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign AA-	In-house	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 (Green)	In-house	2 years
Term deposits - local authorities	UK Sovereign AA-	In-house	2 years
Term deposits - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house	2 years

Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 (Green)	In-house	2 years
Certificates of deposit - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Mgr	2 years
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 (Green)	In-house and Fund Mgr	2 years
Commercial paper - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Mgr	2 years
Commercial paper - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 (Green)	In-house and Fund Mgr	2 years
Floating rate notes issued by multilateral development banks	AAA	**In-house and** Fund Mgr	5 years
Bonds issued by multilateral development banks	AAA	**In-house and** Fund Mgr	5 years
Sovereign bond issues (other than the UK Government)	AAA	**In-house and** Fund Mgr	5 years
UK Government Gilts	UK Sovereign AA-	In-house and Fund Mgr	Max of 25% 5 years
UK Government Gilts	UK Sovereign AA-	In-house and Fund Mgr	Max of 25% 10 years

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 7 Approved countries for investments

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a sovereign rated as a minimum AA- by each of the three rating agencies (Fitch, Moody's and Standard and Poor's).

This list will be reviewed and amended if appropriate on a weekly basis by the Director of Finance and Transformation.

As of 31 December 2013 sovereigns meeting the above requirement were:

AAA	Australia
	Canada
	Denmark
	Finland
	Germany
	Luxembourg
	Norway
	Singapore
	Sweden
	Switzerland
AA+	Netherlands
	Hong Kong
	UK
	USA
AA	Abu Dhabi (UAE)
	France
	Qatar
AA-	Belgium
	Saudi Arabia

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TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

4 February 2014

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Council

1 UPDATE OF ANTI-FRAUD POLICIES

Summary
This report informs Members of the outcome of a review of the Anti-Fraud Policies of the Council by the Audit Committee. The review has identified that some changes are required and recommends that these changes are adopted.

1.1 Introduction

1.1.1 As part of the overall Governance process the Audit Committee undertakes an annual review of the Anti-Fraud policies. Following this review the policies require adoption by full Council via Cabinet.

1.2 Update

1.2.1 The policies have been reviewed by the Audit Committee and any additional amendments requested will be notified to Cabinet on the night.

1.2.2 The majority of changes are relatively minor, referring to changes in job titles and job holders. Members are requested to refer to the Audit Committee report for changes referred to in detail on the individual policies.

1.2.3 The most significant change is the introduction of a separate Council Tax Reduction, Discount and Exemption Anti-Fraud Policy. Previously Council Tax Reduction Scheme cases fell under the Housing and Council Tax Benefit Anti-Fraud Policy. During the last year there have been a number of legislative changes that have introduced new offences and sanctions relating to the Council Tax Reduction Scheme.

1.2.4 Following these changes it was considered timely to introduce a separate policy and to include other Council Tax Exemptions and Discounts that remain offences under the Fraud Act.

1.3 Financial and Value for Money Considerations

1.3.1 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources from fraud.

1.3.2 These policies comply with recognised best practice and reinforce the zero tolerance stance of the Council towards fraud. Effective fraud prevention minimises losses to the Council through fraud.

1.4 Risk Assessment

1.4.1 The policies reflect best practice and the culture of the Council is aimed at minimising the risk of fraud. The policies are supported by the internal control mechanisms in place and form part of the overall control environment of the Council.

1.5 Equality Impact Assessment

1.5.1 There are no negative impacts identified as a result of the policies but they do give a process of how fraud will be treated in accordance with the public interest test ensuring equitable treatment in an investigation.

1.6 Recommendations

1.6.1 Members are asked to **RECOMMEND** that Council approve the following draft policies:

- Anti-Fraud and Corruption Policy
- Housing and Council Tax Benefit Anti-Fraud Policy;
- Council Tax Reduction, Discount and Exemption Anti-Fraud Policy

Background papers: contact: David Buckley

Nil

Sharon Shelton
Director of Finance & Transformation

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Policies are designed to be a statement of how the Council will treat fraud
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	Yes	Any investigations resulting from these policies will consider the public interest test and will take vulnerability into consideration.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.

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TONBRIDGE & MALLING BOROUGH COUNCIL

COUNCIL

18 February 2014

Report of the Director of Central Services

Part 1- Public

Matters For Decision

1 APPOINTMENTS TO OUTSIDE BODIES

To consider the nomination of a replacement representative to serve as a Trustee of the William Strong Foundation.

1.1 Background

1.1.1 The two Trustees of the William Strong Foundation nominated by the Council are Mr David Aikman and Mr John Brooker. Mr Brooker has been unwell and, consequently, unable to fulfil this role for some time and the charity is now inviting the Council to nominate a replacement.

1.1.2 The William Strong Foundation awards grants to young people under the age of 25 who live in the former borough and districts of Tunbridge Wells, Tonbridge and Southborough, especially those intending to pursue a nautical career or occupation.

1.2 Legal Implications

1.2.1 None.

1.3 Financial and Value for Money Considerations

1.3.1 Not applicable.

1.4 Risk Assessment

1.4.1 Not applicable.

1.5 Equality Impact Assessment

1.5.1 See 'Screening for equality impacts' table at end of report

1.6 Recommendations

1.6.1 RECOMMENDED that consideration be given to the nomination of a replacement for Mr J Brooker as a Trustee of the William Strong Foundation.

Background papers: contact: Claire Fox

Nil

Adrian Stanfield
Director of Central Services

Screening for equality impacts:		
Question	**Answer**	**Explanation of impacts**
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	The decision will not adversely impact any group.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	N/A	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.