South Bucks
District Council

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DEMOCRATIC AND ELECTORAL SERVICES

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Date:	13 March 2013	Direct Line:	01895 837225/837227

Dear Councillor

RESOURCES POLICY ADVISORY GROUP

The next meeting of the Resources Policy Advisory Group will be held as follows:

DATE: **THURSDAY, 21ST MARCH, 2013**

TIME: **6.00 PM**

VENUE: **ROOM 6, CAPSWOOD, OXFORD ROAD, DENHAM**

Please note that this meeting is not open to the public

Yours faithfully

Jim Burness

Director of Resources

To: The Resources Policy Advisory Group

Mr D Smith
Mr Anthony
Mr Chhokar
Mr Hardy
Mr Harding
Mr Hollis
Mr Jones
Mr Kelly

Declarations of Interest

Any Member attending the meeting is reminded of the requirement to declare if he/she has a personal interest in any item of business, as defined in the Code of Conduct. If that interest is a prejudicial interest as defined in the Code the Member should also withdraw from the meeting.

A G E N D A

8. **Minutes**

To receive the Part II minutes of the meeting of the PAG held on 13 December 2012 **(27 - 28)**

9. **Land at Stoke Poges**

To consider report of the Director of Services. **(29 - 32)**

Appendix A **(33 - 34)**

Appendix B **(35 - 52)**

Appendix C **(53 - 54)**

10. **Bad Write off Debts**

To consider report of the Director of Resources. **(55 - 58)**

11. **Stoke Place Farm**

To consider report of the Director of Services. **(59 - 62)**

Appendix A **(63 - 66)**

Appendix B **(67 - 68)**

12. **Dropmore Road Depot - Update**

To consider report of the Director of Services. **(69 - 72)**

Appendix **(73 - 74)**

The next meeting of the PAG is due to take place on Thursday, 13 June 2013

RESOURCES POLICY ADVISORY GROUP

Meeting - 13 December 2012

Present:
Mr D Smith, Mr Anthony, Mr Chhokar, Mr Hollis and Mr Kelly

Apologies for absence: Mr Hardy, Mr Harding and Mr Jones

74. MINUTES

The minutes of the meeting of the Policy Advisory Group (PAG) held on 27 September 2012 were received.

75. PORTFOLIO HOLDER BUDGETS 2013/14

The PAG considered a report seeking approval for the draft revenue budget and fees and charges schedule for 2013/14 for the Resources Portfolio. The report outlined the context of the overall financial position facing the Council and confirmed that no bids for growth had been put forward.

Having considered the comments of the PAG the Portfolio Holder has approved for submission to the Cabinet:

1) The 2013/14 revenue budget of £3,955k
2) The 2013/14 fees and charges

76. HS2: REQUEST FOR ACCESS TO SBDC OWNED LAND

The PAG considered a report setting out a request by HS2 (through the contractors) for access to South Bucks District Council for monitoring purposes.

Mindful of the judicial reviews that were currently being conducted, and having considered the comments of the PAG, which felt that a decision on the request should be deferred until the outcomes of the judicial reviews were known (expected January 2013), the Portfolio Holder has **AGREED** to **RECOMMEND** to the Cabinet that consideration of the request for access to South Bucks District Council be deferred until the results of the judicial reviews are known.

77. PUBLIC SERVICES NETWORK

The PAG received a report providing a summary of the framework process led by Bucks CC and in which South Bucks had participated. The process had resulted in the framework contract being awarded to Updata, in partnership with Britannic Communications. For South Bucks the key services that would be covered by the framework agreement were:

- Internet access;
- External email;
- Remote access to networks; and
- Perimeter security e.g. firewalls and web filtering.

When choosing to access services provided under the contract the Council would have its own contracts with Update/Britannic Communications.

The new arrangements would provide opportunities to progress in a cost effective way a number of key projects e.g. telephony. There should also be opportunities for making cost savings and for improving resilience.

During the discussion the importance of keeping abreast of the roll out of fibre optic cabling across the country was emphasised as this could impact on the cost and performance of possible solutions.

RESOLVED that the report be noted.

78. **INVESTMENT PERFORMANCE - QUARTER ENDING SEPTEMBER 2012.**

The PAG received a report setting out the investment returns for the quarter ending September 2012.

The report, after detailing the sources for generating investment income for the year, set out:

- The new martrix for in-house investments approved as part of the Council's Treasury Management Strategy 2012/13;
- A summary of the Council's holdings of fixed deposits at 30 September 2012;
- Investments of short term cash with duration of under one year at the end of the quarter;
- Details of new investments made in the long term (in excess of a year) and short term (less than a year);
- The valuation of the Stoke Poges Memorial Gardens Fund as at 30 September:
- An update on the Treasury Management Strategy

The report concluded by providing an economic background and the latest forecast for interest rates as provided by Sector.

The PAG noted that the position was largely unchanged from the previous quarter and during the discussion a member raised a question around whether an interest rate swap could have been negotiated to counter the reduction in interest rate on one of the Council's investments.

RESOLVED that the report be noted.

79. **EXEMPT INFORMATION**

Members noted that the following information contained exempt information which was not available to the press and public.

Part II minutes of the meeting of the PAG held on 27 September 2012
(Schedule 12A part 1, para (3) - because of information relating to the financial and business affairs of any particular individual)

The PAG noted the minutes.

Update on Current and Proposed Property Matters
(Schedule 12A part 1, paras (1), (2) and (3) - because of information relating to any individual/information likely to reveal the identity of any individual/the financial and business affairs of any particular individual)

The PAG noted the report and the Portfolio Holder recommended to the Cabinet that authority be delegated to the Director of Services, in consultation with the Portfolio Holder, to conclude the purchase a 250 lease in respect of a piece of land at Gerrards Cross from Network Rail.

Land in North Drive, Beaconsfield

Report not circulated as issue to be dealt with by the Director of Services, in consultation with the Portfolio Holder, in accordance with the authority delegated to him.

The meeting terminated at 7.15 pm

SUBJECT:	**Local Council Tax Support – Discretionary Assistance**	
REPORT OF:	**Officer Management Team -** **Prepared by N Berry -**	**Director of Resources** **Senior Contracts Officer**

1. Purpose of Report

1.1 To consider guidance relating to the payment of discretionary support in respect of Council Tax throughout 2013/2014.

2. Links to Council Policy Objectives

2.1 The Council aims to support a thriving local economy, and as part of this it aims to support local people in these difficult economic times. In particular certain residents will be affected by the abolition of Council Tax Benefit and the introduction of localised Council Tax Support which will result in many receiving higher council tax bills from April 2013.

3. Background

3.1 At a meeting held on 22 January 2013 the Council adopted a localised scheme for Council tax Support which is to be introduced from April 2013.

3.2 Due to the fact that central government funding to support those on low incomes has been reduced in line with other welfare reforms, the scheme adopted by the council has had to be less generous than previously.

3.3 Whilst certain groups are 'protected' and will receive the same support as previously, working age claimants who are not in receipt of disability benefits will have the support they receive reduced by 20% meaning that they will have to pay at least 20% of their Council Tax bill.

3.4 At the same meeting a decision was also made to provide £30,000 for 2013/14 for a hardship fund to provide short term support to individuals on a case by case basis. The hardship fund is intended to help those most in need adjust to the new arrangements.

3.5 Currently (until 31 March 2013) should a claimant need additional support with their Council Tax this can be paid through the Discretionary Housing Payments Scheme (DHP's), a fund provided by central government, however from 1 April due to the localisation of Council Tax Support this will no longer be possible. The DHP scheme will then only support claimants with their rent costs.

4. Guidance

4.1 Whilst it would be very difficult to prescribe exactly the circumstances where an award should be made it is important to agree some guidelines where help would be appropriate.

4.2 Attached at appendix A is a document detailing such guidance for 2013/2014.

4.3 Any support granted would be on a one-off basis

4.4 For clarity in Section 2.3 of the guidance it is stated that in exceptional circumstances an award can be made without an application being made. This may occur where a welfare visit has taken place or discussions with for example Citizens Advice have identified that assistance would be appropriate.

5. Monitoring of the scheme

5.1 The discretionary scheme will be monitored throughout 2013/14 with a view to identifying the types of claim received, whether there are particular groups struggling more than others with the new support scheme and whether the scheme needs revisiting in light of the results.

5.2 A report will be provided to Members at the end of the financial year.

6 Recommendation

6.1 The advice of the PAG is sought on whether the Portfolio Holder should be asked to recommend to the Cabinet that the discretionary assistance scheme as set out in the Appendix be adopted subject to its operation being monitored during the course of the year.

Officer Contact:	Neil Berry 01895 837240 **neil.berry@southbucks.gov.uk**
Background Papers:	Local Council Tax Support Scheme 2013/2014

South Bucks District Council

Localised Council Tax Support

Discretionary Assistance
2013/2014

1. Background

From April 2013 all local authorities are required to operate a local scheme to provide Council Tax Support. The scheme agreed for South Bucks District Council involves a reduction in support from the previous Council Tax Benefit scheme for a number of client groups.

Pensioners and those households in receipt of the benefits outlined below* will not see a reduction with the localisation of support although this will not preclude applications for assistance under this discretionary scheme.

*

- Disability Living Allowance; or
- Personal Independence payment; or
- Incapacity Benefit (Long Term Rate); or
- Employment and Support Allowance (Support Component); or
- Employment and Support Allowance (Work Related Activity Component); or
- Severe Disablement Allowance; or
- Is registered blind or certified blind

The main features of the scheme are that

- the scheme is purely discretionary; a claimant does not have a statutory right to a payment,
- the amount that can be paid out in any financial year is cash limited,
- the administration of the scheme is for the Revenues and Benefits service to determine,
- payments made under the Discretionary Scheme are not payments of Council Tax Support.
- Discretionary Awards can only meet maximum Council Tax liability (after the award of any Local Council Tax Support)

2. The Revenues and Benefits Service Protocol relating to Discretionary Awards

2.1 Purpose

The purpose of this protocol is to specify how South Bucks District Council's Revenues and Benefit Service operate the scheme and to indicate some of the factors that will be considered when deciding if a Discretionary award can be made. Each case is treated strictly on its merits and all customers will be treated equally and fairly when the scheme is administered. The Revenues and Benefits Service is committed to working with the local voluntary sector, social landlords and other interested parties in the district to maximise entitlement to all available state benefits and this will be reflected in the administration of the Discretionary scheme. Where the evidence provided indicates that a claimant is not claiming another state benefit that they may be entitled to, the Revenues and Benefits Service will advise them to make such a claim and provide details of other agencies in the district who may be able to help them with such a claim.

2.2 Statement of objectives

The Revenues and Benefits Service will consider making a Discretionary payment to all claimants who meet the qualifying criteria as specified in this policy. The Revenues and Benefits Service will treat all applications on their individual merits, and will seek through the operation of this policy to:

- alleviate poverty
- encourage and sustain people in employment
- sustain tenancies and prevent homelessness
- safeguard residents in their own homes
- help those who are trying to help themselves
- keep families together
- support vulnerable members of the local community
- help claimants through personal and difficult events
- support young people in the transition to adult life

The Revenues and Benefits Service considers that the Discretionary scheme should be seen as a short term emergency fund. It is not and should not be considered as a way round any current or future entitlement restrictions set out within the Localised scheme for Council Tax support.

2.3 Claiming a Discretionary Payment

A claim for a Discretionary award should be made in writing and normally signed by the claimant however in certain exceptional circumstances an award could be made without an application being received – this is at the discretion of the Revenues and Benefits Service. Claims may be accepted from someone acting on behalf of the person concerned where written authorisation for that person to act on behalf of the claimant is held. A letter or signed statement is sufficient provided the following conditions are met.

- On request or in appropriate circumstances, the Revenues and Benefits service will issue the claimant with an application form for a Discretionary award.
- The Revenues and Benefits Service may request any (reasonable) evidence in support of an application for a Discretionary award. The Revenues and Benefits Service will normally make such requests in writing.
- If the claimant is unable to or does not provide the required evidence, the Revenues and Benefits Service will still consider the application and will in any event take into account any other available evidence including that held on file.
- The Revenues and Benefits Service reserves the right to verify any information or evidence provided by the claimant in appropriate circumstances.

2.4 Period of Award

In all cases, the Revenues and Benefits Service will decide the length of time for which a Discretionary award will be made on the basis of the evidence supplied and the facts known. The award will be for the financial year 2013/2014 only. Each case will be treated on its individual merits.

2.5 Making a Discretionary Award

In deciding whether to make a Discretionary award the Revenues and Benefits service will take into account:

- the amount by which support had dropped due to the introduction of the Localised scheme for Council Tax Support
- the financial and medical circumstances of the claimant, their partner and any dependants and any other occupants of the claimant's home;
- the income and expenditure of the claimant, their partner and any dependants or other occupants of the claimant's home;
- any savings or capital that might be held by the claimant or their family;
- the level of indebtedness of the claimant and their family;
- the exceptional nature of the claimant and their family's circumstances;
- the amount available in the Discretionary Award budget at the time of the application;
- the effects of other April 2013 changes to the benefits system affecting the claimant
- the possible impact on the Council of not making such an award, e.g. the pressure on priority homeless accommodation;
- Discretionary Awards can only be considered for a period where Local Council Tax Support is payable
- Any other special circumstance brought to the attention of the Revenues and Benefits Service.

The Revenues and Benefits Service will decide how much to award based on all of the circumstances.

2.6 Changes of Circumstances

The Revenues and Benefits Service may need to revise an award where the claimants circumstances have materially changed.

2.7 The right to seek a review

Discretionary Awards are not payments of Council Tax Support and are therefore not subject to the statutory appeals mechanism.

The Revenues and Benefits Service will operate the following policy for dealing with appeals about a refusal to make a Discretionary award, a decision to award a reduced amount or a decision that there has been an overpayment.

- A claimant (or their appointee or agent) who disagrees with a decision relating to Discretionary awards may dispute the decision. A request for a review shall be delivered in writing within one calendar month of the written decision about the Discretionary award being issued to the claimant.
- The review will be carried out by the Head of Customer Services
- Where the Head of Customer Services decides not to revise the original decision he will notify the claimant of his decision in writing, setting out the reasons for the decision.
- Their decision will be final and binding and may only be challenged via the judicial review process or by complaint to the Local Government Ombudsman.

2.8 Overpayments

The Benefits Service will seek to recover any Discretionary award found to be overpaid. Normally this will involve issuing an invoice to the claimant.

2.9 Fraud

The Revenues and Benefits Service is committed to the fight against fraud in all its forms. A claimant who tries fraudulently to claim a Discretionary award by falsely declaring their circumstances, providing a false statement or evidence in support of their application, may have committed an offence under the Theft Act 1968. Where the Benefits Service suspects that such a fraud may have occurred, the matter will be investigated as appropriate and this may lead to criminal proceedings being instigated.

SUBJECT:	Bad Debt Write-Offs
REPORT OF:	Officer Management Team - Director of Resources Prepared by N Berry - Revenues and Benefits Client Manager

1. Purpose of Report

1.1 To seek authorisation for the write-off of a number of debts over £2,500 in accordance with the Council's Bad Debt Write-off Policy approved by Members in June 2011.

2. Links to Council Policy Objectives

2.1 Delivery of cost effective services, which meet customers and community needs

2.2 Working with partners to improve the provision of high quality services

3. Background

3.1 Members will be aware that South Bucks District Council has a proud record of very high levels of Business Rates and in year collection over the last few years has been in the region of between 98% and 99%. This is further enhanced with post March collections.

3.2 A target for in-year collection is set for Northgate each year and for 2012/2013 this is 98.25% and should this target not be reached penalties are payable.

3.3 Even with the best recovery processes there will always be a number of debts which are ultimately irrecoverable and an exercise has been completed to review many old debts where recovery action has now been exhausted or the debt is now deemed irrecoverable.

4. Debts for which authorisation is sought to write-off

4.1 Listed In part 2 of this agenda are a number of Business Rates debts, each over £2,500, which require member authorisation to be written off. The total amounts to £352,085.01 and relates to 45 cases.

4.2 A number of the debts are aggregated amounts equating to more than one years charge as often it can take a while to exhaust recovery options prior to confirming that the debtor has absconded or the debt is deemed irrecoverable.

4.3 Should further information come to light in any of the cases which could result in recovery of monies owed, the debt will be reinstated and the necessary recovery action taken.

4.4 As can be seen from the list provided in Part II of this report a high proportion of the debts (30%) relate to public houses. Whilst these premises are owned on the whole by breweries etc, the leaseholder is responsible for payment of the rates. Whilst attempts are made to trace the debtor through the freeholder it is unusual that any information would be forthcoming as it is likely that there will also be debts owed to them.

6. Resource Implications

6.1 In line with good practice the Authority has already, in previous years, set aside funds to cover the write off of these Council Tax debts by establishing a provision for bad debts. This provision currently stands at approx £963,000. These write offs will therefore be funded from this provision and will not have any direct impact on the 2012/2013 budget.

In 2012/2013 the amount which the Council is due to collect in respect of Business Rates totals approximately £30 million.

The write-offs listed in Part 2 of this report cover various periods over the past 10 years during which the total amount to be collected was in excess of £200 million. These write-offs therefore represent a very small percentage of the total due to the Council.

7. Recommendation

7.1 The advice of the PAG is sought on whether the Portfolio Holder should recommend to the Cabinet that the bad debts listed in the report in Part 2 be written-off.

Officer Contact:	Neil Berry 01895 837240 neil.berry@southbucks.gov.uk
Background Papers:	**Bad Debt Write-off Policy**

SUBJECT:	Investment Performance Quarter Ending 31st December 2012
REPORT OF:	Officer Management Team - Director of Resources Prepared by – Principal Accountant

1. Purpose of Report

1.1 To inform Members of the investment returns for the quarter ending 31st December 2012 and update Members on the progress of investigating corporate bonds/corporate bond funds.

2. Links to Council Policies & Plans

2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1 The Council's Treasury Management Strategy 2012/13 details the following sources for generating investment income for the year:

(i) Set an estimated return on investment income for the year of £0.8 million.

(ii) Set the sources for generating income for the year as follows:

	£'000
Fixed & Callable Deposits	657
Short Term Cash Flow and Other Investments	77
Stoke Poges Memorial Gardens Fund	66
Total	800

3.2 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.

3.3 The Council has adopted the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.

3.4 The code recommends that reports on investment performance are made on a quarterly basis including a Mid-year Review Report. This report represents the third of these reports for 2012/13.

4. Investment Performance – Quarter to 31 December 2012.

4.1 <u>**In House Investments**</u> – Officers invest cash flow surpluses with approved counter parties. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. Members approved a new matrix for in house investments as part of the Treasury Management Strategy 2012/13 as follows.

	Fitch Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	A+ or better	£7 million	
	A or better Banks with high UK Gov Support	£7 million	
	A or A-	£2 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA- or better	£2 million	Investment decision will be based on balancing yield against duration

4.2 A summary of the Council's holdings of fixed deposits at 31st December 2012 is shown below:

UK Institutions	Credit Rating	Maximum Amount £7 Million Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/12	08/02/17	(1)
Fixed Deposit		2,000,000	3 Month Libor	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	A					
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Total CA		3,000,000				
Lloyds Bank	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	12/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Total Lloyds Group		2,000,000				
Barclays	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	
Total Barclays		1,000,000				
Close Brothers						
Fixed Deposit		1,000,000	2.80%	04/10/12	04/10/13	
Total Close Brothers		1,000,000				
Total Deposits		14,000,000				

(1) RBS have the option to switch to 3 month LIBOR[1] in years 3, 4 & 5.

(2) RBS have exercised their option to switch to 3 month LIBOR in year 2.

4.2 In addition the Council held the following investments of short term cash with duration of under one year at the end of the quarter:

	Fitch	Amount £	Interest Rate	Period
Nat West Bank	A	4,262,000	Base + 28 Basis Points	Instant Access
Nat West Bank	A	3,500,000	Base + 47 Basis Points	30 Day Notice Account
Nat West 95 Day Notice	A	1,000,000	1.20%	02/11/12 to 11/02/13
Nat West 95 Day Notice	A	1,000,000	1.20%	20/11/12 to 25/02/13
Bank of Scotland	A	1,000,000	3.00%	23/04/12 to 11/04/13
Bank of Scotland	A	1,000,000	2.00%	15/05/12 to 15/02/13
Bank of Scotland	A	3,000,000	3.00%	16/07/12 to 04/07/13
Bank of Scotland	A	1,000,000	1.75%	27/09/12 to 14/02/13
Bank of Scotland	A	1,000,000	1.15%	20/11/12 to 20/02/13
Close Brothers	A	1,000,000	2.10%	22/05/12 to 22/02/13
Total		17,762,000		

Since 31st December 2012 the following investment action has taken place:

The following maturities have taken place

	Amount £	Matured	Interest Rate
Nat West 95 Day	1,000,000	11/02/13	1.20%
Nat West 95 Day	1,000,000	25/02/13	1.20%
Bank of Scotland	1,000,000	15/02/13	2.00%
Bank of Scotland	1,000,000	14/02/13	1.75%
Bank of Scotland	1,000,000	20/02/13	1.15%
Close Brothers	1,000,000	22/02/13	2.10%
	6,000,000		

The following new investments have been made

<u>Long Term (in excess of one year)</u>

	Fitch	Amount £	Interest Rate	Period
Close Brothers	A	1,000,000	2.70%	22/02/13 to 22/08/14

<u>Short Term(less than one year)</u>

The remaining maturities have been invested on a very short term basis with Nat West either overnight or in the 30 days notice account in order to meet cash fund requirements, which are particularly high during February and March when precepts are still required to be paid but income from Council Tax and NNDR is low due to the collection period of the first 10 months of the year, and to have available cash for long term investments once Members have made a final decision on the issue of investing in corporate bonds or corporate bond funds.

[1] LIBOR – London Inter Bank Offered Rate

4.3 **Stoke Poges Memorial Gardens Fund:** The interest return from the fund is no longer credited directly to the Stoke Poges Memorial Gardens cost centre but has been incorporated with all of the Council's other investment returns.

4.4 The fund is managed on a passive basis by King & Shaxson. The value of the fund at 31st December 2012 was £1,367,968.58.

5. Treasury Management Strategy Update – Progress on Investing in Corporate Bonds/ Corporate Bond Funds

5.1 The Treasury Management Strategy (TMSS) 2013/14 was approved by the Council on 26th February 2013. The TMSS 2013/14 includes the following recommended action is taken:

Approved a new counterparty matrix which is shown below and includes a minimum credit rating for investments of up to 3 years of BBB+ and for Corporate Bonds/Corporate Bond Funds a minimum credit rating for investing of A-

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	A- or better	

In addition Officers were asked to investigate the diversification of up to £5 million of the investment portfolio into Corporate Bonds/Corporate Bond Funds or index linked Gilts.

5.2 A list of available UK corporate bonds with a yield of approximately 2.50% and above and which meet the Council's credit rating and duration is attached at appendix C.

5.3 With regard to investing in a corporate bond fund there are a range of these and early research indicates that most (if not all) are not rated as such but deal in investment grade instruments which will go down to BBB, therefore risk maybe spread over a range of investments from BBB to AAA and therefore may not meet the approved counterparty matrix above, there may also be a minimum level of investment and fund management fee. Officers have been in contact with Sector and the Bucks County Council Pension Fund to obtain suggested names that are used by local authorities and will then carry out further research with regard to credit quality, yield, duration, minimum level of investment and management fees and if any further information is available an update will be given at the meeting.

5.4 Investment in individual corporate bonds does have the following advantages:

- It would have a known rate of return and duration period.
- There would be no minimum investment level and the £5 million could be spread over a number of bonds.
- There would be no fund manager selection process and investment and diversification of the investment portfolio could be achieved earlier in 2013/14.

- There would be no ongoing fund manager fees.
- The Council would have more control e.g. the Council would make the investment decision including the rating of the counterparty when entering the investment whereas a bond fund would probably not be rated and would spread the risk over a number of counterparties some of which would be below the credit rating within the Council's matrix.

5.5 At the last meeting of this PAG when the TMSS 2013/14 was approved some Members expressed the view that equities/equity funds should not be excluded from consideration. I have researched the use of equities further and as a result of my investigations have produced the following:

For the direct investment into equities the expenditure would be classified as capital. Any proceeds from the sale would be a capital receipt. A dividend payment, if distributed, would be revenue. Therefore direct investment in equities, whilst possibly achieving an element of capital growth, would likely result in reducing the amount of revenue interest in the year and have an impact on the level of council tax.

If the Council invested in an equity fund it would need to be determined if this was capital expenditure or avoided the classification as a result of being in a fund. Investing in an equities fund would mean the buying of units and changes in the unit value would be made up of increase/decrease in equity values and any dividend distribution. If the split on the unit value was not known it could result in movements in share value going through Income & Expenditure (even where they are unrealised)

To carry out this sort of accounting we would need to classify the fund as Fair Value through Profit or Loss and have evidence of trading as defined in the CIPFA Code of Practice on Local Authority Accounting.

If the fund didn't meet the classification it would be Available for Sale and there would be a need to get a break down to determine whether the gains/losses within the unit values are all realised. If there are any unrealised gains or losses at year end they should be held on the balance sheet in the Available for Sale Reserve and not taken to the Income & Expenditure account until they are realised.

There would always be a risk that if the fund is deemed capital, any gains or losses taken to revenue would have to be unwound and recognised as net capital receipts.

6. Economic Background

6.1 During the quarter ended 31st December 2012

- Indicators suggested that the economy probably contracted;
- Retail sales weakened but spending off the high street held up;
- Employment continued to rise, albeit at a slower pace;
- Inflation remained stubbornly above the MPC's 2% target;
- The MPC paused its programme of asset purchases;
- UK equity prices rose and government bond prices fell;
- The US economy continued to recover at a modest pace.

A more detailed Economic Background is shown at appendix A.

7 Interest Rate Forecasts

7.1 The latest forecast for interest rates provided by Sector is shown below:

	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%

Sector undertook a review of its interest rate forecasts following the issue of the Bank of England Inflation Report for November 2012. In the August Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth whereas previously it had consistently been forecasting a strong recovery to over 3%p.a. In its November Report, the Bank has continued to shift towards pessimism in the speed and strength of recovery; it is now only forecasting growth at around 1% in 2013 and 2% in 2014. These developments have pushed back Sector's expectations of the timing of the eventual start of increases in Bank Rate from Q4 2014 to Q1 2015, as well as the pace of rises in gilt yields.

A more detailed summary outlook on the prospects for interest rates is shown at appendix B

8. Resources, Risk & Other Implications

8.1 The investment budget set for the current year is £800,000. Latest estimated returns show that there is likely to be a shortfall of £25,000 for the year which has been reflected in budget monitoring reports.

9. Recommendation

9.1 The PAG is requested to note the investment performance for the quarter to 31st December 2012.

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Background Papers:	**None**

Economic background:

- The unwinding of the boost from the Olympic Games in August means that GDP probably contracted in the fourth quarter of 2012. The CIPS/Markit business surveys generally weakened, with the measure of services activity in December falling to its lowest level since December 2010.
- The weakness of the surveys seemed in part to reflect the washing out of the impact of the Olympics, which will have given a temporary boost to activity in the third quarter. Indeed, the official data deteriorated at the start of Q4. Following a 2.1% monthly drop in September, industrial production fell by a further 0.8% in October. In addition, the overall trade deficit widened from £2.5bn in September to £3.6bn in October.
- Meanwhile, high street spending, which is excluded from the CIPS surveys, was relatively weak. The official measure of retail sales volumes fell by 0.7% in October. With sales volumes stagnant in November, retail sales are likely to detract from overall GDP growth in Q4. For example, if sales volumes remain unchanged again in December, then sales will be 0.6% lower than in the third quarter.
- However, spending off the high street continued to show evidence of recovery. In particular, private new car registrations were 12% and 11% higher than a year ago in October and November respectively.
- All in all, the above indicate there is likely to have been a 0.4% quarterly fall in GDP in Q4 2012, which would leave growth for 2012 as a whole at about -0.1%.
- Meanwhile, although the resilience of the labour market continued, it faded a bit through the quarter. Admittedly, the claimant count measure of unemployment fell by 3,000 in November, while the Labour Force Survey measure of employment rose by 40,000 in the three months to October. However, this was the smallest increase since the start of the year.
- Pay growth remained depressed. Annual growth of overall average earnings dropped from 1.8% in June to 1.3% in October. Given the rate of inflation over this period, real pay continued to fall on an annual basis.

- Meanwhile, news on the housing market was mixed. The Halifax measure of house prices declined by 0.1% m/m in October, but then rose by 1% in November. However, the Nationwide measure was flat in November, having risen by 0.6% in October. The big picture is that prices on both measures fell slightly over the year. Elsewhere, mortgage approvals for new house purchase continued to edge up. The total of 52,982 in October was the fifth consecutive monthly rise. Although an encouraging sign, the level is still far below that seen pre-crisis.
- Banks' funding costs continued to ease over the quarter, reflecting the Bank of England's provision of low cost funding via the Funding for Lending Scheme. Rates on new fixed and floating rate mortgages both declined in October compared to their average level in Q3.
- Meanwhile, although public borrowing has continued to overshoot last year's level, the Government was helped by a number of one offs in December's Autumn Statement. Borrowing from April to November was £93bn, £9bn higher than the same period in 2011/12. However, the Office for Budget Responsibility (OBR) expects net borrowing to come in at £108bn in 2012/13, about £10bn below last year's level, largely reflecting the receipt of funds from the Bank of England's Asset Purchase Facility and the anticipated auction of 4G licences early next year.
- As far as the Autumn Statement went, there were few surprises. Austerity was extended for a further year, to 2017/18, and in light of the deterioration in the borrowing forecasts, the Chancellor chose to disregard one of his fiscal targets, to get debt as a share of GDP falling by 2015/16. While he did announce a number of growth friendly measures, including a cut in corporation tax, it was largely a case of give with one hand and take away with the other.
- Inflation remained stubbornly sticky in Q4. Indeed, CPI inflation rose from 2.2% in September to 2.7% in October, and remained at that level in November. October's jump in university tuition fees, hefty rises in utility prices at the end of the 2012 and a pick-up in food price inflation following poor harvests, mean that inflation is likely to hover between 2.5% and 3% for the best part of 2013.
- Meanwhile, the MPC voted in November to pause its programme of quantitative easing, leaving total asset purchases at £375bn. The announcement in November that

Mark Carney, the current Governor of the Bank of Canada, will take on the Governorship of the Bank of England from June 2013, raised speculation that the MPC's current 2% inflation target may be reformulated.

- Equity prices in the UK and overseas largely continued to rise over the course of the fourth quarter, with the FTSE 100 picking up from 5,820 to 5,898. Over the period gilt prices fell, causing 10-year gilt yields to rise from about 1.55% to 1.80%. Meanwhile, the pound was unchanged against the dollar, at about $1.63, but weakened slightly against the euro from €1.25 to €1.23.
- Internationally, the US economy's recovery has remained soft. A weighted average of the manufacturing and non-manufacturing ISM indices points to annualised GDP growth of 2.0% in Q4. Total non-farm payroll employment rose by 138,000 in October and 146,000 in November, compared to an average increase of 168,000 in the third quarter. However, the agreement reached on 1st January to avert some of the "fiscal cliff" scheduled for the start of 2013 reduces the risk of a new recession.
- In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt. However, activity indicators point to a deepening recession in the region. On past form, the composite Eurozone PMI points to a quarterly drop in GDP of about 0.5% in Q4.

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SUMMARY OUTLOOK

UK economy

Mervyn King was downbeat at the press conference, after the November Inflation Report was published, about the combination of stronger inflation and weaker growth facing the UK. He blamed the downturn in the global economy and viewed the recent reversal of the 25% devaluation of Sterling after the financial crash, to 20%, as being unhelpful to encouraging an export led recovery. However, some commentators are now questioning whether Sterling devaluation is a positive for an economy which is focused on producing high value added specialised goods and services which may not be as price sensitive as UK exports were in previous decades. He also commented that the banks were keeping financially weak "zombie firms" on life support systems by allowing them to breach borrowing covenants so as to avoid debt write offs hitting bank balance sheets. This may mean that more viable firms with expansion plans are being starved of credit and that the potential for a more rapid recovery is being stifled.

The Chancellor's Autumn Statement recognised that the Government is not going to achieve its original timetable for reducing the budget deficit and total debt; the timescale has accordingly been extended. The housing market looks as if it will continue to be weak for a long time yet and the construction industry is contracting.

Eurozone

Although market anxiety about Greece has currently subsided after the agreement to a further major financial support package amounting to nearly €50bn in December, markets are still concerned that the eventual end game could be that Greece is eventually forced to exit (dubbed "Grexit") the Eurozone and return to the drachma. There is also increasing concern that the contraction in Spain's economy and the very high level of unemployment of 25%, similar to Greece's level, could mean that both countries could get into a downward deflationary spiral which makes achieving fiscal correction increasingly difficult and unachievable. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about Spain and Greece is likely to be subdued in the immediate future. However, the poor economic fundamentals and outlook for both economies could well mean that a storm in financial markets has only been delayed, not cancelled. Spain has also resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks. The imminent general election in Italy also creates uncertainty over which political parties will eventually create a coalition and what their eventual compromise will amount to in terms of economic policy to contain Italy's own fiscal challenges. There could therefore be volatility in Spanish and Italian bond yields in the near future, depending on political and economic developments. There will also be a general election in Germany in 2013 though it currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries.

In summary, our views on the prospects for GDP growth in the major global economies are as follows: --

UK

- The Bank of England November 2012 Inflation Report has again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%.
- It now looks likely that Q4 2012 will see a return to negative growth. If this negativity continues into the first quarter of 2013 it would be the first triple dip recession since records began in 1955.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and Eurozone GDP growth means that the UK economy is likely to register weak growth over 2013 and 2014.
- Consumers are likely to remain focused on paying down debt. Weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed; this will be compounded by inflation being higher than increases in average earnings i.e. disposable income will still be eroded.
- The Coalition government is hampered in promoting growth by the need to tackle the budget deficit.
- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- There is potential for more QE in 2013 which will help to keep gilt yields lower than they would be otherwise.
- On the other hand, recent discussion around reformulating how RPI is calculated could adversely affect demand for inflation indexed gilts in particular, but also gilts generally, if this proposal is taken forward and was perceived to be a softening of the stand against inflation in the UK.
- The main rating agencies have all made it clear they are reviewing the UK's "AAA" status in early 2013. There is a material chance of the current ratings being downgraded. Although the UK will retain its "safe haven" status, a change in rating may place some upside pressure on gilt yields.

US

- GDP growth is likely to remain weak at around 2% - but that is a lot better than the prospects for the UK and Eurozone.
- The Fed has indicated that is unlikely to increase the central rate until 2015. It changed its policy targets to focus specifically on the employment sector. The new target is for unemployment to fall to 6.5% before official policy rates are raised.
- The "fiscal cliff" has only been partially dealt with at the beginning of January 2013. Increasing the debt ceiling and agreeing the cuts in expenditure part of the "fiscal cliff" will need to be resolved within the next two months.
- The housing market is showing some sustainable signs of having turned a corner.

Eurozone

- Austerity programmes in the various "peripheral" countries are starting to show signs of having an effect in reducing growth rates in "core" countries. The Eurozone looks as if it is heading for another quarter of negative growth in Q4 2012 and prolong the recession which began in Q3.

China

- Efforts to stimulate the economy appear to be succeeding towards the end of 2012. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Equity prices staged a significant rise during the second half of 2012 and the start of January, accompanied by a fall in bond prices and a rise in bond yields. 2013 is likely to see a tug of war between bond and equity prices as ebbs and flows in investor confidence and fears cause recurring spikes and falls in their prices.

The overall balance of risks to economic recovery in the UK remains weighted to the downside. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Although the prospect of further QE is likely to keep gilt yields lower than they would otherwise be in the near term, this programme is not everlasting. At some stage, the expectation of a conclusion to QE will add to the upside pressure on gilt yields

UK Corporate Bonds Yields 2.5% +

Short Name	Industry	Coupon	Bid Yield To Maturity	Issue Date	Maturity	Fitch Rating	Amount Issued	Collateral Type
BUPA FINANCE PLC	Health Care Facilities/Services	7.5	2.5347027	02/07/2009	04/07/2016	A-	350000000	COMPANY GUARNT
CLOSE BROS GRP	Banking	6.5	3.8822308	10/02/2010	10/02/2017	A	200000000	SR UNSECURED
SCOTTISH POWER	Utilities	8.375	2.4479039	20/02/1997	20/02/2017	A-	200000000	SR UNSECURED
LLOYDS TSB BANK	Banking	5.375	2.6502284	21/06/2010	07/09/2015	A	75000000	SR UNSECURED
LLOYDS TSB BANK	Banking	5.5	2.6930895	25/03/2011	25/09/2016	A	150000000	SR UNSECURED

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Appendix

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AppendixA

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