



Notice of a public meeting of

Audit & Governance Committee

To:	Councillors Cunningham-Cross (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Steward and Watson
Date:	Wednesday, 13 February 2013
Time:	5.00 pm
Venue:	The Guildhall, York

AGENDA

1. **Declarations of Interest**

At this point, Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable pecuniary interests

which they may have in respect of business on this agenda.

2. **Minutes** (Pages 3 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 12 December 2012.

3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 12 February 2013.**

4. Exclusion of Press and Public

To consider the exclusion of the press and public from the meeting during consideration of Annex 1 to agenda item 10 on the grounds that it contains information relating to prevention, prosecution or investigation of crime. This information is classed as exempt under paragraph 7 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by the Local Government (Access to Information) (Variation) Order 2006).

5. Audit and Governance Committee Forward Plan to December 2013 (Pages 11 - 16)

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to December 2013.

6. Review of the Effectiveness of Internal Audit (Pages 17 - 20)

This report seeks Members' approval for the arrangements for the review of the effectiveness of internal audit.

7. Scrutiny of the Treasury Management Monitor 3 Report 2012/13 and review of Prudential Indicators (Pages 21 - 46)

This report provides Members with an update of treasury management activity for the first nine months of 2012/13.

8. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators (Pages 47 - 82)

This report details the Treasury Management Strategy Statement and Prudential Indicators 2013/14 to 2017/18.

9. Progress Report on 2012/13 Audit Report (Pages 83 - 90)

This report provides an update from Mazars on their progress in delivering their responsibilities as the council's auditors.

10. Fraud Risk Assessment (Pages 91 - 106)

This report informs Members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address these risks.

11. Internal Audit Plan Consultation (Pages 107 - 110)

The purpose of this report is to seek Members' views on the priorities for internal audit for 2013/14, to inform the preparation of the annual audit plan.

12. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

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Email – jayne.carr@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
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Contact details are set out above.

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Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

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City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	12 DECEMBER 2012
PRESENT	COUNCILLORS CUNNINGHAM-CROSS (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, STEWARD AND WATSON

25. DECLARATIONS OF INTEREST

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on this agenda. None were declared.

26. MINUTES

RESOLVED: That the minutes of the meeting of 27 September 2012 be approved and signed by the Chair as a correct record.

27. PUBLIC PARTICIPATION

It was reported that there were no registrations to speak at the meeting under the council's Public Participation Scheme.

28. AUDIT AND GOVERNANCE COMMITTEE FORWARD PLAN TO SEPTEMBER 2013

Consideration was given to a paper which presented the future plan of reports expected to be presented to the Committee during the forthcoming year to September 2013.

It was agreed that there was a need to schedule an additional meeting of the Committee in order to make timely progress in implementing the recommendations of the Audit and Governance Effectiveness Task Group (minute 33 refers).

RESOLVED: (i) That the Committee's Forward Plan be updated to reflect the recommendations of the Audit and Governance Effectiveness Task Group¹.

- (ii) That an additional meeting of the Committee be scheduled to take place in the Spring of 2013.
- (iii) That future meetings of the Committee commence at 5.00pm.

REASON: To ensure that the Committee has a Forward Plan in place to enable it to carry out the functions of an effective audit committee.

Action Required

1. Update committee's Forward Plan

EA

29. KEY CORPORATE RISK MONITOR QUARTER 3

Members considered a report that presented an update on the key corporate risks and which highlighted in more detail any emerging risk issues, with a view to Members considering any further information they would wish to receive on these matters.

Officers gave details of the council's critical key corporate risks and stated that the council was intending to review its risks and risk management processes during the 2012/13 financial year. This work would be supported by Zurich Municipal's Risk Management Services. Members would be invited to participate in an event focussing on identifying and reviewing key corporate risks. Members reiterated their comments made at previous meetings that Adult and Social Care should be designated as a key corporate risk in view of the changing demographics and the resulting financial implications.

The risks in respect of Communities and Neighbourhoods and City and Environmental Services were attached to the report as Annexes A and B respectively. Officers from these directorates responded to Members' queries in respect of the risks and, in particular, the issues in respect of:

- The impact of reduced funding on front-line services delivered by Communities and Neighbourhoods and on income generation
- The transition of public health responsibilities from the Primary Care Trust to the Local Authority
- Air quality targets
- Reduced funding for adaptations

- The risks posed when horses on verges became untethered
- The Community Stadium
- Income generation in respect of City and Environmental Services, including consideration of generating further income from the provision of pre-application advice
- Emergency Planning, flooding and business continuity planning
- The York North West Development and developments in other parts of the city
- Appeals following planning decisions
- 106 agreements
- Waste PFI

A request was made that the detailed Key Corporate Risk Monitor be included in the published agenda papers for future meetings rather than being emailed separately as was currently the case. Officers confirmed that this could be actioned but explained that, although the document was a useful tool in enabling Members to identify risks for which they would wish to receive more detailed information, the present arrangements ensured that the focus was on specific risks and hence officers with specialist knowledge of those issues were in attendance at the meeting to respond to Members' questions.

RESOLVED: (i) That the report be noted.

 (ii) That Adult and Social Care be designated as a key corporate risk.

REASON: To provide assurance that the authority is effectively understanding and managing its key risks.

30. EXTERNAL AUDIT FEE LETTER 2012/13- MAZARS

Members considered a report that presented the External Audit 2012/13 fee planning letter prepared by Mazars.

Members noted that the final fee for 2011/12 was £265,067 for the audit and certification work. The proposed fees for 2012/13 totalled £155,356. The reduction in fee was due to the change in audit arrangements and the fact that previously the fees had

covered not only the cost of local audit work but also contributed to the cost of the Audit Commission's national functions.

Referring to paragraph 6 of the report, Members queried whether it was likely that the fee would be higher. Officers stated that, although there was a risk that the fee would be higher if the quality of the working papers provided was not to a suitable standard, they were confident that it would not be necessary to increase the fee.

RESOLVED: That the contents of the report and the Fees Letter be noted.

REASON: To ensure that Members are aware of the proposed external audit fee and arrangements.

31. CERTIFICATION OF CLAIMS AND RETURNS 2011/2012 - AUDIT COMMISSION

Members considered a report that presented the Certificate of Claims and Returns Report 2011/12 produced by the Audit Commission. The report reviewed the council's arrangements for the preparation and administration of grant claims within the council. Members were pleased to note that the council's arrangements had continued to improve over the last few years.

RESOLVED: That the Audit Commission's Certification of Claims and Returns report be noted.

REASON: To enable Members to consider the effectiveness of the council's grant administration activity and comment on the current arrangements.

32. INTERNAL AUDIT AND FRAUD PLAN PROGRESS REPORT

Members considered a report that provided an update on progress made in delivering the internal audit work plan for 2012/13 and on current counter fraud and information governance activity.

Members questioned officers about the controls that were in place in respect of the use of procurement cards. Officers

explained that it was intended that the cards would be rolled out more widely across the council but, before that occurred, action was being taken to ensure that effective controls were in place. This included ensuring that VAT receipts were produced, putting in place clear guidance on the use of the cards and appropriate sanctions when the cards were not used appropriately.

In response to questions from Members, details were given of the arrangements that were in place across the council to prevent, detect and report potential money laundering. Members stressed the importance of ensuring that the arrangements that were being made to raise staff awareness and deliver training included all aspects of money laundering and not just placement. It was noted that it was intended to update the current policy as well as identifying particular aspects of the council's work which were most vulnerable to money laundering activity.

RESOLVED: That the progress made in delivering the 2012/13 internal audit work programme, and current counter fraud and information governance activity be noted.

REASON: To enable Members to consider the implications of audit and fraud findings.

33. AUDIT AND GOVERNANCE COMMITTEE EFFECTIVENESS - SELF ASSESSMENT

Members considered a report that presented the outcomes of the review of the committee's own effectiveness.

Referring to the task group's suggestion that induction training and an annual training update should be made compulsory for all members of the committee, discussion took place as to ways of improving Member engagement with training in general. Suggestions put forward included greater consultation with Members regarding the dates of training sessions, designating two days each year as Member training days and offering more on-line training.

Members suggested the following amendments to the recommendations detailed at Annnex 1 of the report:

- Include an additional column to include the person responsible for delivering the proposed action.

- The appointment of an independent member to the committee to be designated as a priority, as this was a longstanding aim.
- The committee's terms of reference to be reviewed on an annual basis rather than every three years.
- Consideration to be given as to how to raise the public's awareness of the work of the committee.

Max Thomas was thanked for his work in supporting the committee through the self-evaluation process.

RESOLVED: That, subject to the inclusion of the additions listed above, the recommendations of the Effectiveness Task Group be approved.

REASON: To ensure that the Audit and Governance Committee remains effective.

34. SCRUTINY OF THE TREASURY MANAGEMENT MONITOR 2 REPORT 2012/13 AND REVIEW OF PRUDENTIAL INDICATORS

Members considered a report that provided an update of treasury management activity for the first six months of 2012/13.

Officers went through the key issues. It was noted that the environment in which treasury management operated remained volatile due to the continued economic uncertainty. The council's treasury management advisers had forecast that the first rise in Bank Rate would be in Quarter 4 2014 or Quarter 1 2015. Members' attention was also drawn to the fact that no loans had been taken in 2012/13. This was due to loan rates remaining higher than investment rates and also the interest rate forecast predicting that borrowing rates would continue to stay low. Details were given of the "Certainty Rates" introduced by the Government.

RESOLVED: (i) That the Treasury Management Monitor 2 and Prudential Indicators 2012/13 be noted.

(ii) That a training session on Treasury Management be arranged¹.

REASON: To ensure that those responsible for scrutiny and governance arrangements are updated on

a regular basis and to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Action Required

1. Arrange training session

LBW

35. ANNUAL FINANCIAL UPDATE FOR 2012/13

Members considered a report that provided an update on the approach being taken for the Annual Financial Report (Statement of Accounts) for 2012/13 and which also responded to the comments made in the Annual Governance Report (AGR).

Members' attention was drawn to the references in the 2011/12 AGR in respect of the council's Fixed Asset Register, specific accounting treatment in relation to cash and bank and the date of reconciliation for schools' balances. The proposed actions which were to be taken in response to the comments were detailed in the report. It was noted that the committee's recommendation that school's balances should perhaps be reconciled on 31 March had been considered but, because of the timing of school holidays, this would have placed considerable pressure on the close down timetable and hence the preferred option was for schools to be reconciled a week early.

Officers gave details of changes to measure transport infrastructure assets.

- RESOLVED:
- (i) That it be noted that only minor changes are required in the 2012/13 Annual Financial Report compared to last year.
 - (ii) That the accounting treatment for the Fixed Asset Register and Cash and Bank and the approach taken to the reconciliation of school bank accounts be noted.

REASON: To ensure that those responsible for governance arrangements are updated and made aware as to the approach taken to the Annual Financial Report 2012/13, for their approval by 30 June 2013.

Councillor Cunningham-Cross, Chair
[The meeting started at 4.30 pm and finished at 7.00 pm].



Audit and Governance Committee

13 February 2012

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to December 2013**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2013.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to September. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. There have been three amendments made to the forward plan since the previous version was presented to this Committee in December 2012.
4. An additional meeting has been scheduled for March 2013 in order to implement the recommendations of the Audit & Governance Committee Effectiveness Task Group.
5. Two additional items have also been added to this additional meeting. The Key Corporate Risk Monitor Quarter 4 (including ACE Risks) has been deferred from the February meeting. Additionally, a new report on restricting email access by members of the public has been added.
6. An additional item has been added to the April meeting entitled Information Governance Annual Report.

Consultation

7. The Forward Plan is subject to discussion by Members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

8. Not relevant for the purpose of the report.

Analysis

9. Not relevant for the purpose of the report.

Council Plan

10. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

11.
 - (a) **Financial** - There are no implications
 - (b) **Human Resources (HR)** - There are no implications
 - (c) **Equalities** - There are no implications
 - (d) **Legal** - There are no implications
 - (e) **Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g) **Property** - There are no implications

Risk Management

12. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

13.

- (a) The Committee's Forward Plan for the period up to December 2013 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

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Ian Floyd
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**Report
Approved**



Date 13/02/2013

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All ☐

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to December 2013

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Audit & Governance Committee Draft Forward Plan to December 2013

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 19 March 2013 (One-off meeting)**

Implement recommendations of Audit & Governance Committee Effectiveness Task Group

Key Corporate Risk Monitor Quarter 4 (Including ACE Risks)

Restricting email access by members of the public

- **Committee 17 April 2013**

Approval of Internal Audit Plan & Review of Terms of reference

Annual Report of the Audit & Governance Committee

Internal Audit & Fraud Plan Progress Report

Follow up of Audit Recommendations

Information Governance Annual Report

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

- **Committee June 2013 (Date TBC)**

Review of effectiveness of Internal Audit

Annual Report of the Head of Internal Audit

Draft Annual Governance Statement

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

- **Committee July 2013 (Date TBC)**

Draft Statement of Accounts 2012/13

Scrutiny of the Treasury Management Annual Report 2012/13 and review of prudential indicators

Key Corporate Risk Monitor Quarter 1 (Including directorate risks)

Report to update on the Progress of Direct Payments

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee September 2013 (Date TBC)**

Final Statement of Accounts 2012/13

Annual Governance Report 2012/13

Corporate Risk Monitor Quarter 2 (Including directorate risks)

Follow up of Internal & External Audit Recommendations

Internal Audit & Fraud Plan Progress Report

*Audit Commission national reports summary (if any)
Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee December 2013 (Date TBC)**

Key Corporate Risk Monitor Quarter 3 (Including directorate risks)

Annual Audit Letter – Mazaars

2013/14 Review of the effectiveness of Internal Audit

Internal Audit & Fraud Plan Progress Report

Scrutiny of the Treasury Management Monitor 2 Report 2012/13 and Review of Prudential Indicators

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*



Audit and Governance Committee

13 February 2013

Report of the Head of Internal Audit

Review of the Effectiveness of Internal Audit

Summary

- 1 To agree the arrangements for the 2012/13 review of the effectiveness of internal audit.

Background

- 2 The Accounts and Audit Regulations 2011 require local authorities to conduct an annual review of the effectiveness of their internal audit, and to report the findings of this review to an appropriate committee. The process is intended to form part of the wider review of the effectiveness of the system of internal control which is necessary to prepare the Annual Governance Statement (AGS).
- 3 Best practice guidance issued by the Chartered Institute of Public Finance (CIPFA) also recommends that audit committees should periodically review their own effectiveness so as to ensure that they continue to properly fulfil their responsibilities.
- 4 In previous years, the annual review of the effectiveness of internal audit has been undertaken jointly with North Yorkshire County Council through the Shared Service Contract Board (SSCB), and in consultation with the respective audit committee chairs. The SSCB comprises the respective client officers from both councils and Veritau's Head of Internal Audit. Meetings of the SSCB are held approximately four times a year and involve consideration of performance indicators, changes in working practices and other service developments. The results of the 2011/12 review of internal audit effectiveness were reported to this committee on 28 June 2012.

- 5 In addition, the committee has recently undertaken a review of its own effectiveness. The results of this review were reported to the last meeting of the committee on 12 December 2012. An action plan was agreed to address a number of areas where it was thought that the committee's effectiveness could be improved or other changes made to support the functioning of the committee.

Proposed arrangements for 2012/13

- 6 The Regulations require either the council itself or a committee of the council to review the effectiveness of internal audit, and for the review to be performed annually. The council has delegated this responsibility to the Audit and Governance Committee and included it within the terms of reference for the committee. To ensure consistency and avoid unnecessary duplication, it is proposed that the SSCB should again undertake the detailed work, with the process overseen by the chair of the committee. As last year, it is proposed that the outcome of the review will then be reported to the June 2013 meeting of this committee.
- 7 The best practice guidance states that the review of the effectiveness of internal audit should also include consideration of the effectiveness of the audit committee itself (to the extent that its work relates to internal audit) as well as the performance of the audit provider. As noted in paragraph 5 above, the committee has recently completed such a review and the conclusions will therefore be taken into account as part of the review of internal audit effectiveness.

Options

- 8 The annual review of the effectiveness of internal audit is a statutory requirement. The committee therefore has two options:
- to adopt the process followed in previous years with a joint review being undertaken by the SSCB (in consultation with the audit committee chairs of both councils). This option is recommended.
 - to recommend an alternative approach.

Council Plan

- 9 The Audit and Governance Committee forms an important component of the council's corporate governance framework. As such it supports the overall aims and priorities of the council by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 10 The implications are:

- **Finance - none**
- **Human Resources (HR) - none**
- **Equalities - none**
- **Legal** – the council has a statutory responsibility to undertake an annual review of internal audit effectiveness
- **Crime and Disorder - none**
- **Information Technology (IT) - none**
- **Property - none**

Risk Management Assessment

- 11 The council may not discharge its statutory responsibilities if it fails to establish appropriate arrangements for the annual review of internal audit effectiveness.

Recommendations

- 12 Members are asked to;

- consider and agree the proposed arrangements for undertaking the review of internal audit effectiveness.

Reason

To enable Members to consider the adequacy and effectiveness of the council's internal audit arrangements.

Contact Details

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**Report
Approved**



Date 21 January
2013

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

None



Audit & Governance**13 February 2013****Report of the Director of Customer & Business Support Services****Scrutiny of Treasury Management Monitor 3 Review and Prudential Indicators 2012/13****Summary**

1. The Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies, as stated in the Treasury Management Strategy 2012/13 approved by full Council on 23 February 2012. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code") stipulates that
 - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved,
 - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training
2. Attached at Appendix A is the Treasury Management Monitor 3 Review and Prudential Indicators 2012/13 report. This information provides Members with an update of treasury management activity for the first nine months of 2012/13.

Background

3. Points of interest to note in the Treasury Management Monitor 3 Review and Prudential Indicators are:
 - (a) Paragraph 5 – Bank Base rate is not scheduled to increase before Q1 2015 to 0.75%
 - (b) Paragraph 6 – Equity price as and gilt yields will remain volatile during 2013, which will give opportunities for favourable borrowing rates to be achieved
 - (c) Paragraph 7 - Sector – treasury management advisers – believe that the longer run trend is for gilt yields and PWLB rates to rise

- (d) Paragraph 9 - The Council will aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity
- (e) Paragraph 13 - The average level of funds available for investment purposes in the nine months of 2012/13 was £42.936m (£58.085m in 11/12)
- (f) Paragraph 14 - The average level of funds has fallen compared to a year ago due to using the Council's surplus funds to support capital expenditure rather than taking external borrowing
- (g) Paragraph 16 – Investment activity earned 1.5% in first 9 months of 2012/13 compared to 7 day LIBID of 0.41%
- (h) Paragraph 20 - Interest rates available for investment have markedly fallen in the last quarter of 2012. Banks have access to cheaper funding which in turn has driven down market rates significantly in the last quarter.
- (i) Paragraph 27 - To minimise investment risk, no new borrowing has been taken during 2012/13 and it is anticipated that no further borrowing will be undertaken during this financial year
- (j) Paragraph 31 - The HRA amounts to 54% of the borrowing portfolio at £140.3m and the GF is 46% with borrowing at £118.3m, a total of £258.6m
- (k) Paragraph 36 - During the financial year 2012/13 to date the Council has operated within the treasury limits and Prudential Indicators.

- 4. Training can be provided as previously requested by Members:
 - (a) to increase Members knowledge of the Local Government Pension Scheme (LGPS) to be able to understand how the LGPS works and how it relates to the Councils Annual Financial Report – Statement of Accounts
 - (b) to raise awareness of all aspects of Treasury management and also specifically focus on individual topics such as the Capital Financing Requirement and the need to borrow or Investments policy including creditworthiness of counterparties
- 5. Training can be arranged prior to A&G Meetings on 17 April 2013 or 27 June 2013 or a date as Members recommend.

Consultation

- 6. Not applicable

Options

- 7. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice “the Code”. The revised “code” was originally approved at full Council on 26 February

2010. At this time the Council also approved the Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15 which stated that “The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by “the Code” and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports.” No alternative options are available.

Council Plan

8. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s priority areas as set out in the council plan. It therefore underpins all of the council’s aims.

Implications

9. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other – there are no other implications to this report.

Risk Management

10. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

11. (a) Audit & Governance Committee note and scrutinise the Treasury Management Monitor 3 and Prudential Indicators 2012/13 at Appendix A
- (b) Audit & Governance Committee confirm the date for the suggested training session as detailed in paragraph 4.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

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Support Services

Report approved ☒ Date 13/02/13

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ☒

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code")

Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

Annexes

1. Appendix A - Treasury Management Monitor 3 Review and Prudential Indicators 2012/13
2. Annex A – prudential Indicators 2012/13

Cabinet - Report of the Cabinet Member for Corporate Services

Treasury Management Monitor 3 and Prudential Indicators 2012/13

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 and the revised 2011 (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (as revised) to provide members with an update on treasury management activities at least twice a year.
2. This report therefore ensures this council is implementing best practice in accordance with the Code. It updates on the Treasury Management activities for the period 1 April 2012 to 31 December 2013 and reviews:
 - Economic Background
 - Annual Investment Strategy
 - Investment portfolio
 - Borrowing portfolio
 - Compliance with Prudential Indicators

Background

3. The Council's Treasury Management function is responsible for the effective management of the Council's investments, cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Economic Background and Analysis

4. The Council's treasury management activities have operated within the following economic background:
 - a) Gross Domestic product (GDP) which measures the growth of the economy fell by 0.3% in quarter 4 of 2012. The downgrade is mainly prompted by weakness in the Country's

dominant service sector and the unwinding of the boost from the Olympic Games in the summer. This contraction is a concern as we move in 2013 as 2 consecutive quarters of negative growth results in a technical recession;

- b) Retail sales weakened but spending off the high street held up;
 - c) Employment continued to rise, albeit at a slower pace. 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;
 - d) Inflation remained stubbornly above the MPC's 2% target; 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. The announcement in November that Mark Carney, the current Governor of the Bank of Canada, and who 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;
 - e) The MPC paused its programme of asset purchases, with quantitative easing remaining at £375bn;
 - f) 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%
 - g) The US economy continued to recover at a modest pace and In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt
5. From the economic overview described above the environment in which treasury management operates remains volatile. Sector – the Council's treasury management advisers – undertook a review of its interest rate forecasts following the issue of the latest 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 this 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. Table 1 is Sector's Interest Rate forecast:

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

Table 1: Sector's – Treasury Management Advisers – Interest Rate Forecast

6. Economic forecasting remains difficult with so many external influences weighing on the UK. 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.
7. 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
8. Figure 1 below shows the actual and projection of the bank base rate, which has remained at historically low levels since April 2009. Sector latest bank base rate forecast is November 2012 and this is compared to the January 2012 and January 2011 forecast. Other economists latest forecast are also shown for November 2012. The graph highlights the delay in the expectation of the increase in the Bank Base rate which is as a

result of the decision to expand quantitative easing and deterioration of growth prospects.

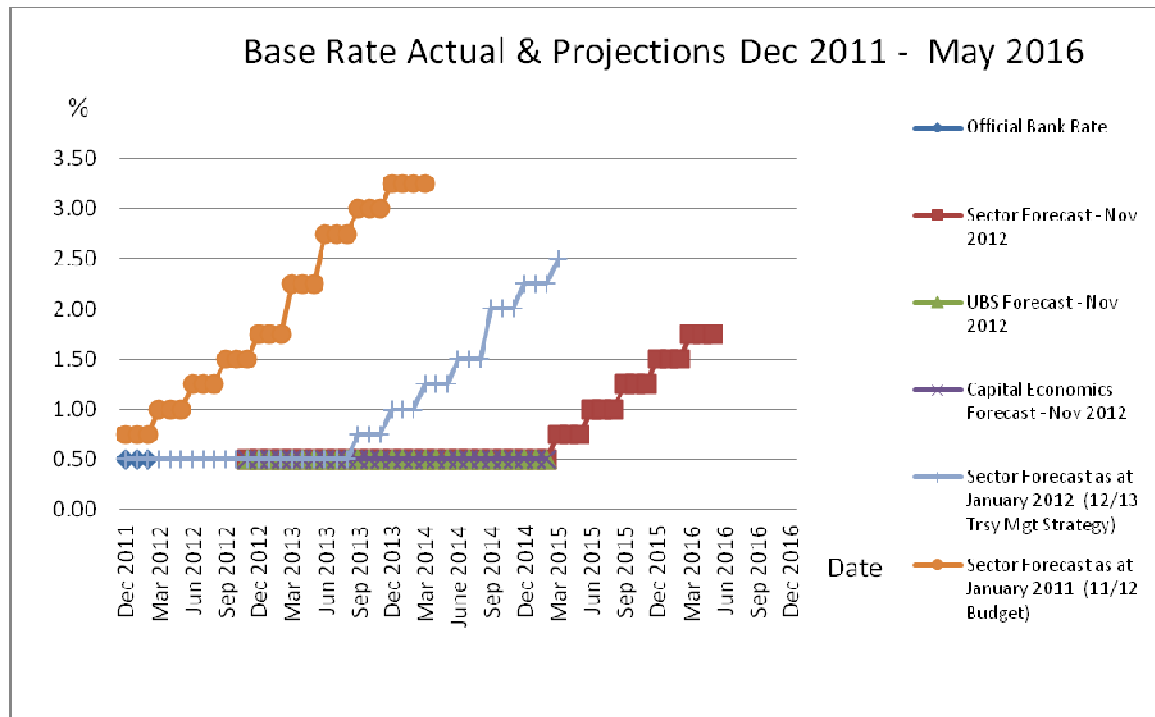


Figure 1: Base Rate 2012 to 2016 - latest forecast Nov 2012

Annual Investment Strategy

9. Treasury Management Strategy Statement for 2012/13 was approved by Council on 23 February 2012. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:
 - security of capital
 - liquidity
 - yield

The Council will aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity.

10. Investments are placed with highly credit rated financial institutions using the creditworthiness matrices described in the Treasury Management Strategy, which includes sovereign credit ratings from the rating agencies and the credit default swap (CDS) overlay information provided by Sector.
11. During the period under review, the unsettled economic climate and heightened credit concerns made it appropriate to keep investments short term with a maximum duration of three

months. This limit applies to all entities in which the Council is considering investing, except for the following institutions:

- (a) UK Government and related entities such as Local Authorities – suggested limit remains at 5 years.
- (b) UK semi-nationalised institutions e.g. Lloyds / RBS – suggested limit remains at 1 year. UK ownership provides considerable conform to investors.
- (c) Money market Funds – suggested limit remains at 1 year.

12. Investments held during the first nine months of 2012/13 in accordance with Sector's Creditworthiness matrices and changes to Fitch and Moody's credit ratings, remained within the Council's approved credit criteria limits contained in the Annual Investment Strategy.

Investment Portfolio

13. Investment rates available in the market have continued at historical low levels. The average level of funds available for investment purposes in the nine months of 2012/13 was £42.936m (£58.085m in 11/12). The level of funds available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, borrowing and progress on the Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement.

14. The average level of funds has fallen compared to a year ago due to using the Council's surplus funds to support capital expenditure rather than taking external borrowing. Investment rates are lower than borrowing rates, therefore it is beneficial to take less borrowing and reduce the investment portfolio.

15. There are no funds currently invested for periods of a year or more due to the limited institutions available for investment in the current market environment; in accordance with the credit criteria policy.

16. Investment activity during the first nine months of 2012/13 earned a rate of return of 1.50% (1.22% in 11/12). This is 1.09% (0.74% in 11/12) better than the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.41% (0.48% in 11/12) and 1.00% (0.72% in 11/12) higher than the average base rate for the period of 0.50%. The interest earned to date in 2012/13 is in line with the treasury management budget.

17. The average rate of return is higher in 2012/13 than it was a year ago due to the Council being able to take advantage of higher interest rates offered by banks in the early part of 2012/13. These investment interest rates were available as banks needed to hold higher cash reserves on their balance sheets in accordance with Government regulations. To attract funds from institutions, they offered higher interest rates.
18. Figure 2 shows the interest rates available on the market between 7 days and 1 year and also the rate of return that the Council has achieved for the first nine months of 2012/13. It shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

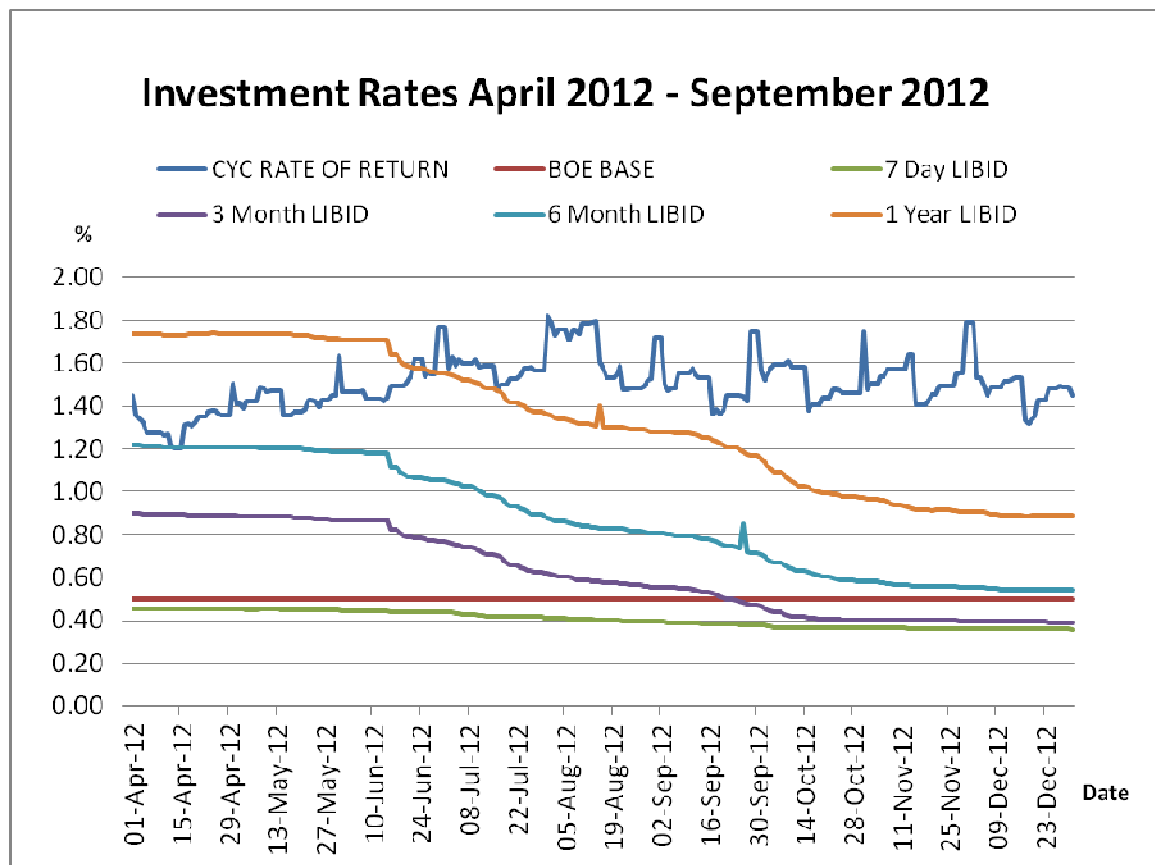


Figure 2 CYC Investments vs Money Market Rates

19. The higher rate of return on investment activity compared to the average LIBID rate and base rate for the period is due to the treasury team continuing to monitor the market and taking advantage of opportunities when they become available, whilst ensuring the security of the council's funds.

20. Figure 2 also shows the interest rates available for investment have markedly fallen in the last quarter of 2012. There are two major reasons for this. The main reason is the excess liquidity being provided to the market by Central Banks, such as the £80bn made available to UK Banks through the Funding for Lending Scheme at rates of around 0.5%. In return for the cheaper funding, banks must use this liquidity for onward lending for mortgages and loans to businesses in an aim to boost the availability of credit and potential for increased spending/growth in the wider economy. Banks therefore have access to cheaper funding which in turn has driven down market rates significantly in the last quarter.
21. The second important factor is a growing expectation that the economic recovery will be slow and prolonged and therefore bank rates and short-term rates will stay lower (i.e. at 0.5%), for longer. This has dragged down market rates as well to match future market expectations.
22. Figure 3 shows the investments in the portfolio are diversified and include deposits in short term call accounts, fixed term investments and money market funds.

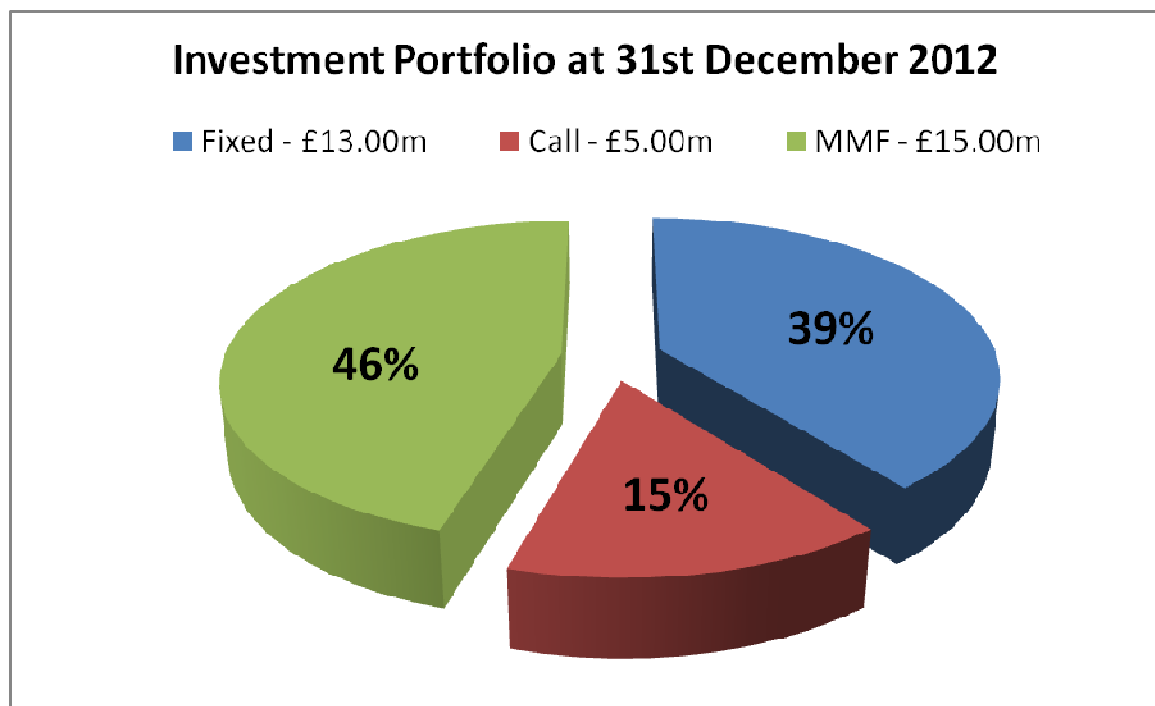


Figure 3 Diversified Investment Portfolio at 31 December 2012

Borrowing Portfolio

23. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured against its asset base.
24. The level of borrowing taken by the Council is determined by the Capital Finance Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent and the treasury management budget supports the borrowing finance costs in the longer term.
25. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. The markets will continue to be closely monitored to ensure that advantage is taken of favourable rates in 2012/13 and the increased borrowing requirement is not as dependant on interest rates in any one year.
26. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised instead, decreasing the level of surplus funds being available for investment. In the current interest rate environment where investment rates are below borrowing rates consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower. This is referred to in paragraph 15 above.
27. Therefore, to minimise investment risk, no new borrowing has been taken during 2012/13 and it is anticipated that no further borrowing will be undertaken during this financial year. Rates continue to be monitored in this volatile opportunistic environment.
28. Sector – the Council's treasury management advisers - forecast that overall future Public Works Loans Board (PWLB) rates will rise, although there is still expected to be volatility in the market over the coming months.
29. At Monitor 2, it was explained that the Government has introduced a "certainty rate" from 1 November 2012 which enables local authorities to access cheaper borrowing rates from the PWLB - a reduction of 20 basis points. Therefore, Sector's 25 year PWLB target rate for new long term borrowing for the

quarter was lowered to 3.70% from 3.90% following the introduction of the “certainty rate”.

30. In general, gilt yields (on which PWLB rates are based) did rise during the quarter; however table 2 below shows that lower interest rates were available in November than in October. This is due to PWLB rates available to local authorities being reduced by 20 basis points from 1 November 2013 – the certainty rate.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.96%	1.48%	2.46%	3.76%	3.91%
Date	05/11/12	09/11/12	09/11/12	09/11/12	30/11/12
High	1.21%	1.88%	2.90%	4.17%	4.34%
Date	17/10/12	25/10/12	25/10/12	22/10/12	22/10/12
Average	1.07%	1.68%	2.66%	3.93%	4.09%

Table 2 – PWLB Borrowing Rates - quarter ended 31.12.2012

31. The Councils long-term borrowing started the year at a level of £261.6m. A £3m loan was repaid in May 2012 in line with its maturity date. No new borrowing has been taken in the 1st nine months of 2012/13. The HRA amounts to 54% of the borrowing portfolio at £140.3m and the GF is 46% with borrowing at £118.3m, a total of £258.6m.
32. Figure 4 shows the fluctuation in PWLB rates since October 2010 when the Government’s Comprehensive Spending Review increased rates to 1% above gilt yields. It also shows that even, where PWLB rates available to local authorities fell by 20 basis points with the introduction of the “certainty rate” on 1 November 2012, that the general downward trend during 2012/13, has seen rates beginning to rise slightly in quarter 4. The triangles highlight when new borrowing was taken in the previous financial year 2011/12.

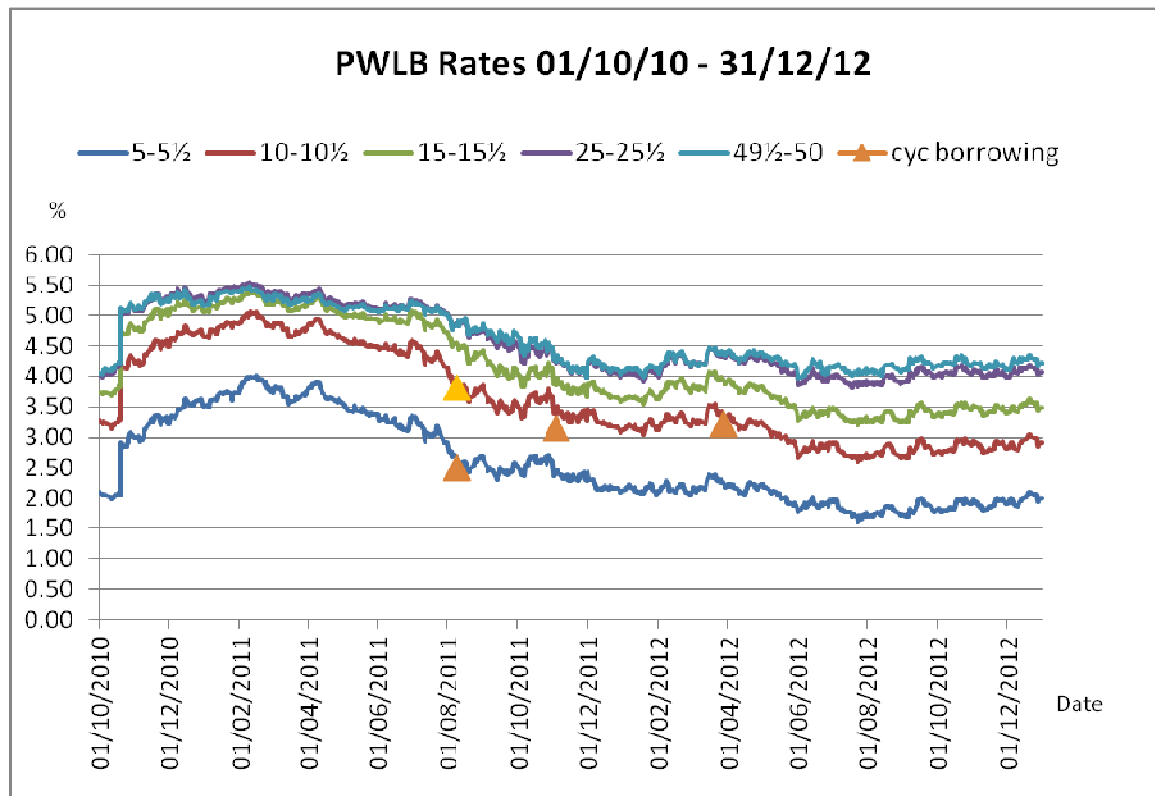


Figure 4 – PWLB rates vs CYC Borrowing Levels

33. Figure 5 illustrates the 2012/13 maturity profile of the Council's debt portfolio to 31 December 2012. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

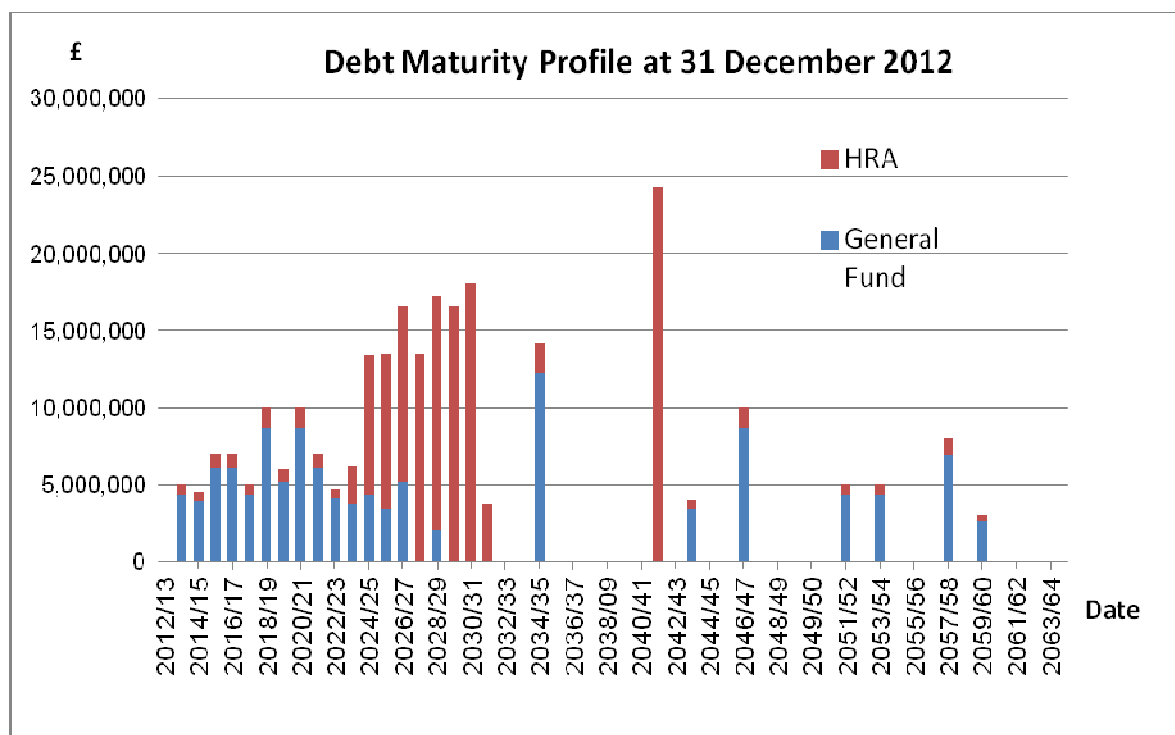


Figure 5 – Debt Maturity Profile 12/13

Compliance with Prudential Indicators

34. The Prudential Indicators for 2012/13, included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Council on 23 February 2012.
35. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A, along with the revised limits for the HRA reform.
36. During the financial year 2012/13 to date the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation and Options

37. The report shows the nine month position of the treasury management portfolio in 2012/13. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Sector - the Council's Treasury Management advisors. It is a statutory requirement to provide the information detailed in the report.

Analysis

38. The report is a statutory requirement and as such there are no specific options to analyse.

Council Plan

39. The Council Plan has five priorities which all require a budget to achieve. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and endeavours to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

Financial

40. The financial implications are in the body of the report.

Human Resources Implications

41. There are no HR implications as a result of this report.

Equalities

42. There are no equalities implications as a result of this report.

Legal Implications

43. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Crime and Disorder Implications

44. There are no crime and disorder implications as a result of this report.

Information Technology Implications

45. There are no IT implications as a result of this report.

Property Implications

46. There are no property implications as a result of this report.

Risk Management

47. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result of this there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Recommendations

48. Members are required, in accordance with the Local Government Act 2003 (revised), to:

- Note the Treasury Management activities in 2011/12
- Note the movements in the Prudential Indicators at Annex A

Reason – to ensure the continued performance of the Council's Treasury Management function.

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Ian Floyd - Director of Customer
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Report
Approved ☐

Date 12/02/13

Specialist Implications Officer(s)

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Wards Affected:

All

Specialist Implication Officers:

None

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Background Papers

Cash-flow Model 12/13, Investment Register 12/13, PWLB Debt Register, Capital Financing Requirement 12/13, Venture Fund 12/13, Treasury Management budget 12/13, Statistics 12/13.

Annexes

Annex A – Prudential Indicators 2012/13

Prudential Indicators 2012/13 Monitor 3

Annex A

PRUDENTIAL INDICATORS			2012/13 Original Budget	2012/13 Monitor 3
1)	Capital Expenditure To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget.	Non - HRA HRA TOTAL	£M 67.6 7.8 75.4	£M 48.6 8.7 57.3
2)	Ratio of financing costs to net revenue stream This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy.	Non - HRA HRA	9.2% 2.3%	9.7% 2.1%
3a)	Incremental impact of capital investment decisions - Council Tax Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.	Increase in Council Tax (band D) per annum	£ p 23.89	£ p 18.29
3b)	Incremental impact of capital investment decisions - Hsg Rents Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.	Increase in average housing rent per week	£ p 0.00	£ p 0.00

4)	Net Borrowing not exceed the CFR To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.		£M 258.5	£M 225.6
5)	Capital Financing Requirement as at 31 March Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	Non - HRA HRA TOTAL	£M 168.6 140.4 309.0	£M 174.2 140.3 314.5
6a)	Authorised Limit for external debt - The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.	borrowing other long term liabilities TOTAL	£M 337.9 20.0 357.9	£M 337.9 20.0 357.9
6b)	Operational Boundary for external debt - The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk	borrowing other long term liabilities	£M 307.9 20.0	£M 307.9 20.0

	management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.	TOTAL	327.9	327.9
7)	Adoption of the CIPFA Code of Practice for Treasury Management in Public Services Ensuring Treasury Management (TM) Practices remain in line with the Code of Practice.	TM Policy Statement	✓	✓
		12 TM Practices	✓	✓
		Policy Placed Before Council	✓	✓
		Annual Review Undertaken	✓	✓
		A&G named as specified Scrutiny body	✓	✓
8a)	Upper limit for fixed interest rate exposure The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re fixed rate borrowing / investments Actual Net interest re fixed rate borrowing / investments	104%	109%
8b)	Upper limit for variable rate exposure The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly	Net interest re variable rate borrowing / investments	-4%	-9%

	exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Actual Net interest re variable rate borrowing / investments		
9)	Upper limit for total principal sums invested for over 364 days		£M	£M
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.	Investments over 364 days	10.0	10.0
			£0	£0
10)	Maturity structure of new fixed rate borrowing		Upper Limit	Actual £M
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.			258.6
		under 12 months	30%	2%
		12 months & within 24 months	30%	3%
		24 months & within 5 years	40%	7%
		5 years & within 10 years	40%	15%
		10 years & and above	90%	75%

Glossary Of Abbreviations

HRA - Housing Revenue Account

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 23 February 2012 for the financial year 2012/13 must be monitored and reported at Outturn. The Prudential Indicators are detailed above and the key points are explained below:

2. **Indicator 1 - Capital Expenditure:** The capital programme expenditure for 2012/13 was originally estimated at £65.1m and at monitor 3 had decreased to £57.3m. The Capital Programme 2012/13 Monitor 3 report has further detail with regards to this movement. .
3. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream:** This indicator represents how much borrowing for the capital programme will cost as a percentage of the net revenue stream of the Council. The General Fund indicator at Monitor 3 is 9.7% compared to a budgeted level of 9.2%, with the marginal increase due to increased finance costs, as a result of increased provision to repay borrowing as defined in statute. The Housing Revenue Account (HRA) version of the indicator is 2.1% compared to the budgeted level of 2.3%, the reduction is mainly due to a higher HRA balance which earned investment income than was originally estimated. Under the new self financing regulations, the increased finance costs to service the additional £121.1m borrowing taken are covered by the increased housing rent collected by the authority. In the past this rent was always collected, rent has not risen, but under the housing subsidy scheme it would have been paid to the Government.
4. **Indicator 3 (a) & (b) - Incremental Impact of Capital Investment Decisions on the Level of Council Tax (3a) and Housing Rents (3b):** This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, where possible. However in the current economic environment with reduced capital receipts there is the requirement to use borrowing to support the capital programme, which has an impact on Council Tax through the revenue cost of financing the borrowing. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. For the General Fund at Monitor 3 the increase in Council tax (band D) per annum is £18.29 compared to £23.89 estimated at budget. The reduction is in line with no borrowing occurring in the first nine months for 2012/13.
5. **Indicator 4 – Net Borrowing not exceed the CFR:** In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table highlights the Council's net borrowing position against the CFR, it confirms that no borrowing occurred in advance of need and the net borrowing position was below the CFR.
6. **Indicator 5 - Capital Financing Requirement (CFR):** The CFR represents the Council's underlying need to borrow for all capital investment over time. The

CFR represents the capital expenditure (which has not yet been paid for by revenue or other resources) which is required to be funded by borrowing. Under Statute, the council is permitted to borrow to fund capital expenditure. When borrowing is undertaken it is not taken for a specific capital scheme but rather to fund the council's capital financing requirement as a whole.

- 7. Indicator 6(a) - Authorised Limit:** The authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level, which is approved at Full Council every year. The table confirms at Monitor 3 that the Council has maintained gross borrowing within its authorised limit of £357.9m. Borrowing is currently £258.6m, the headroom available within this limit allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme.
- 8. Indicator 6(b) – Operational Boundary:** This is the estimated borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. At Monitor 3 the actual borrowing level was below the operational boundary as no borrowing has been taken, even though this could have occurred in line with the Capital Financing Requirement of the capital programme. This was in accordance with the strategy to hold off borrowing due to borrowing rates being much higher than investment rates.
- 9. Indicator 7 - Adoption of the CIPFA Code of Practice in Treasury Management:** In accordance with the Prudential Code, the Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice “the Code” prior to the beginning of the financial year. The table shows the code has been adhered to.
- 10. Indicator 8(a) & (b) - Upper Limit for Fixed and Variable Interest rate Exposure:** Interest rate exposure on debt is positive due to it being in relation to interest paid and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. The majority of the interest received for the Council relates to variable rated investments, where as the interest paid on debt is fixed. The limits set in the budget are similar to those at Monitor 3 at 109% for fixed interest rate exposure and –9% for variable interest rate exposure.
- 11. Indicator 9 - Upper Limit for total principal sums invested for over 364 days:** This has been set at £10m and is approximately 25% of the average portfolio throughout the year. To date no investments for longer than 364 days have been taken due to the credit ratings assigned to counterparties. In the current environment it is viewed as high risk to have long term exposure. The banks which are nationalised have the backing of government and therefore investment up to 1 year are considered.

12. Indicator 10 - Maturity Structure of Fixed rate Borrowing: The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. At Monitor 3 the borrowing portfolio maturity profile was within the limits set as represented in the table.

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Audit & Governance**13 February 2013**

Report of the Director of Customer & Business Support Services

Scrutiny of Treasury Management Strategy Statement and Prudential Indicators for 2013/14 to 2017/2018**Summary**

1. In accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”) which was published in 2011, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
2. The Treasury Management Strategy Statement and Prudential Indicators 2013/14 to 2017/18 is attached at Appendix A, along with the required annexes. This will be the start of the 2013/14 cycle of reports which includes 2 monitoring reports, a mid-year review report and the 2013/14 outturn report.

Background

3. The areas covered in the treasury management strategy report statement and prudential indicators for 2013/14 to 2017/18 are as required in legislation and “the code”.
4. Points of interest to assist Members in the scrutiny of the treasury management strategy and prudential indicators attached at Appendix A are as follows:
 - a) Prudential Indicator 1 – capital expenditure (para12) – is in line with the Capital programme budget report 13/14 to 17/18
 - b) Prudential Indicator 2 – Capital Financing Requirement (para 17) the Council's need to borrow is fairly flat over the 5 year period. Even though the capital programme increases, this is offset by the provision to repay debt and therefore the CFR remains static at around £320m
 - c) Minimum Revenue Provision policy statement (at para 18) provides further explanation of the requirement to set aside a provision to repay debt.
 - d) The affordability prudential indicators at show the ratio of finance costs to net revenue stream of the council (at para 27) and Prudential

Indicator 4 - shows the increase in cost to a council tax band D payer of increasing capital expenditure (at para 29). The indicator is in line with the CFR and in future years there is little impact – zero – as no borrowing is estimated to be taken.

- e) The Council had a debt position of £258.6m at an interest rate of 3.76% and an investment portfolio at £33m earning £1.5%
- f) Prudential Indicator 6 - the authorised borrowing limit (para 37) and the operational boundary (para 38) represent the control of the level of debt of the Council. The authorised borrowing limit should never be breached and if it needs to be changed is reported to full Council
- g) The borrowing strategy estimates the base rate to rise in Q1 2015, with gilt yield rising gradually in the coming years. The target borrowing rate set for 2013/14 is 4% (at para 48)
- h) Policy on Borrowing in Advance of Need (para 54) is unlikely for 2013/14 and if opportunities present themselves to repay debt this will be undertaken, although it is unlikely in the current environment (para 58)
- i) The Council's Creditworthiness Policy is detailed (para's 72 to 78) and also at Annex C the types of investments – specified and non-specified.
- j) The Investment Strategy (at para 83) estimates that banks will be relatively liquid in the next two years and therefore interest rates to be earned on investments are low at 0.5% / 0.6%.

5. Members of Audit & Governance Committee will receive treasury management reports on a regular basis, along with training sessions as required by the regulations.

Consultation

6. Not applicable.

Options

7. It is a statutory requirement under Local Government Act 2003 (as amended) for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice the "Code". The Council approved the terms of reference in the Constitution to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports. No alternative options are available.

Council Plan

8. Treasury management is an integral part of the council's finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for

security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council's key priority areas as set out in the council plan. It therefore underpins all of the council's aims.

Implications

9. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) and the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414)
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other - the revised code requires officers and members to scrutinise and manage the treasury function.

Risk Management

10. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice 2011 (the code) are all adhered to as required.

Recommendations

11. That Audit & Governance Committee note the Treasury Management Strategy Statement and Prudential Indicators for 2013/14 to 2017/18 at Appendix A.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Contact Details

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Support Services
Report ☒ Date 13/02/13
approved

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ☒

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments
CIPFA Prudential Code
CIPFA Treasury Management in the Public Services: Code of Practice
and Cross-Sectoral Guidance ("the Code")
Treasury Management Strategy Statement and Prudential Indicators for
2013/14 to 2017/18

Cabinet

12 February 2013

Report of the Cabinet Member for Corporate Services

Treasury Management Strategy Statement and Prudential Indicators for 2013/14 to 2017/18

Purpose

1. The purpose of this report is to ask the Cabinet to recommend that Council approve the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators for 2013/14 to 2017/18
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer

Background

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
 3. The second main function of the treasury management service is the funding of the Council's capital programme. The capital programme provides a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
-

4. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management as:

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

Reporting requirements

5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three reports are:
 - a) **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans including prudential indicators, the minimum revenue provision policy, the treasury management strategy, the annual investment strategy;
 - b) **A Mid Year Treasury Management Report** – updates members with whether the treasury activities are meeting the strategy, whether any policies require revision, amending prudential indicators if necessary;
 - c) **An Annual Treasury Report** – updates on treasury activity/operations for the year and compares actual prudential indicators with estimates in the strategy.
 6. These reports are required to be adequately scrutinised by committee before being recommended to the Council. The scrutiny role is undertaken by the Audit & Governance Committee.
 7. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.
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Treasury Management Strategy for 2013/14

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

a) Capital Issues 2013/14 to 2017/18 -

- Prudential Indicators relating to the Capital Programme;
- Minimum Revenue Provision (MRP) Policy Statement .
- Prudential Indicators to assess affordability of the Capital programme

b) Treasury management Issues – Treasury Management Strategy

- Prudential Indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- Economic background and prospects for interest rates;
- the borrowing strategy;
- Prudential indicators;
- policy on borrowing in advance of need;
- debt rescheduling;
- investment policy;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- Scheme of delegation and the role of the S151 officer

9. These elements cover the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

The Capital Prudential Indicators 2013/14 – 2017/18

10. The Council's capital expenditure plans are the key driver of treasury management activity. The Council's capital expenditure plans are the subject of a separate report the Capital Programme Budget 2013/14 to 2017/18. The output of the capital programme is reflected in this report in the capital prudential indicators, which are designed to assist member's

overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.

11. The capital prudential indicators (PI) along with the treasury management prudential indicators (PI) are included throughout the report:

- PI 1: Capital Expenditure
- PI 2: Capital financing requirement
- PI 3: Ratio of financing cost to Net revenue stream
- PI4&5: Incremental impact of capital investment decisions on council tax and housing rent
- PI6A: Affordable borrowing limit
- PI 6B: Operational boundary
- PI 6C: HRA debt Limit
- PI 7: Interest rate exposure for fixed and variable rated debt
- PI 8: Maturity structure of debt
- PI 9: Surplus funds invested >3654 days

12. **Prudential Indicator 1 - Capital Expenditure.** This prudential Indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle, where detail is provided in the Capital Programme Budget 13/14 to 17/18 report:

Capital Expenditure £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	48.6	56.6	24.2	22.5	19.0	13.0
HRA existing	8.7	10.2	8.2	7.1	8.8	7.2
Total	57.3	66.8	32.4	29.6	27.8	20.2

Table 1: Capital Expenditure

13. Table 1 details the capital expenditure of the Council excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. There were no PFI schemes forecast to be taken in 2013/14.
14. **Prudential Indicator 2 - The Capital Financing Requirement (CFR) (Council's Borrowing Need);** the second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above,

which has not immediately been paid for and will be funded by borrowing, will increase the CFR.

15. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life. Therefore, the CFR is reduced with this provision to repay debt.
16. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increases the CFR, and therefore the Council's overall borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has a limit to cover such schemes of £20m included within the CFR.
17. Table 2 below, shows the Capital Financing Requirement, excluding other long term liabilities:

Capital Financing Requirement £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA CFR	174.2	180.9	181.9	181.9	180.7	175.3
HRA existing	18.8	18.8	18.8	18.8	18.8	18.8
HRA settlement	121.5	121.5	121.5	121.5	121.5	121.5
HRA CFR	140.3	140.3	140.3	140.3	140.3	140.3
Total CFR	314.5	321.2	322.2	322.2	321.0	315.6

Table 2: Capital Financing Requirement (CFR)

Minimum Revenue Provision (MRP) Policy Statement

18. The Council is required to pay off an element of the accumulated General Fund (non-HRA) capital expenditure each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
 19. CLG Regulations (statutory Instrument (SI) 2008 no.414 s4) have been issued which require full Council to approve an MRP Statement in advance of each year. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.
 20. The Council is recommended to approve the following MRP Statement. For capital expenditure incurred before 1 April 2008
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or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (S28 in SI 2003 no. 3146)
21. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.
22. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be
- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option D);
23. This option provides for a reduction in the borrowing need over approximately the asset's life. The asset life is an absolute maximum and wherever possible the debt should be repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. It should be noted that with all debts, the longer the repayment period the more is paid in interest over the period of the loan. It is therefore deemed as prudent to reduce the period over which the repayments are made.
24. No revenue charge is currently required for the HRA under the HRA self-financing reform in the next 4 years. Under the HRA reform the HRA will be required to charge depreciation on its assets, which will have an increased revenue cost effect. In order to address any possible adverse impact in the next 4 years, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation and for the depreciation charge to be reversed therefore, having no revenue impact on council tax. Further clarification on depreciation will be provided in future years.
25. Repayments included in annual PFI or finance leases are also applied as MRP.

Affordability Prudential Indicators

26. Affordability Prudential Indicators - The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR). In addition, it is necessary to assess the affordability of the Council's capital investment
-

plans. These prudential indicators provide an indication of the impact of the capital programme investment plans on the Council's overall finances.

- 27. Prudential Indicator 3 - Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) and compares it to the Council's net revenue stream.

%	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	9.73%	10.85%	11.43%	10.45%	11.54%	11.62%
HRA	2.05%	2.27%	2.12%	1.71%	1.68%	1.35%

Table 3: Ratio of financing costs to net revenue stream

28. The estimates of financing costs include current commitments and the proposals in the Capital programme Budget 2013/14 to 2017/18 report.

- 29. Prudential Indicator 4 - Incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the five-year capital programme recommended in the Capital programme 2012/13 to 2016/17 budget report and compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget.

£	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	18.29	14.43	4.87	1.00	0.00	0.00

Table 4: - Incremental impact of capital investment decisions on the band D council tax

- 30. Prudential Indicator 5 - Incremental impact of capital investment decisions on housing rent levels.** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the capital programme budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator is zero as the housing rent levels are set by Government and is not directly impacted by the Council's capital plans.

£	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

Table 5 - Incremental impact of capital investment decisions on housing rent levels

Treasury Management Strategy

31. The capital prudential indicators set out above ensure that the Council's capital programme / expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that the Council's cash is available to meet the Council's capital programme requirements and also revenue activity needs in accordance with the Local Government Act 2003 and relevant professional codes
32. The treasury management fundction involves both the forecasting of the cash flow and, where capital plans are require, the organisation of appropriate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

33. The Council's treasury portfolio position at 31 December 2012 is detailed below in table 6:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board</u> (PWLB) – Money borrowed from the Debt Mgt Office (Treasury Agency)	£238.6m	3.61%
<u>Market Loans</u>		
Club Loan – A loan taken in conjunction with 2 other Authorities	£10.0m	7.155%
LOBO Loan – Lender Option Borrower Option	£10.0m	3.74%
Total Gross Borrowing (GF & HRA)	£258.6	3.76%
Total Investments	£ 33.0	1.5%

Table 6: Current position at 31 December 2012

34. The Council at 31 December 2012 had £258.6m of fixed interest rate debt, of which £139.9m was HRA and £118.7m General Fund. Investment balance was £33.0m. The level of investments continues to fall as no borrowing has occurred during 2012/13 to date and the capital programme continues to spend.

35. Further to the current treasury management position above, it is key that the council operates its treasury management activities within defined prudential indicator limits. One of these is that the Council needs to ensure that its total gross debt, does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year 2011/12 plus the estimates of any additional CFR for 2012/13 and the following two financial years. This allows the flexibility to borrow in advance of need and ensures that borrowing is for a capital purpose and that borrowing is not undertaken for revenue purposes.
36. Table 7 shows that the estimated gross debt position of the Council does not exceed the underlying capital borrowing need (the CFR). The Director of Customer Business & Support Services (S151 Officer) confirms that the Council complied with this prudential indicator and does not envisage difficulties for the future.

£m	2012/13 Estimate	2014/15 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt	258.1	287.7	289.7	291.7	293.7	295.7
Total CFR	314.5	321.2	322.2	322.2	321.1	315.6
Under/(over) Borrowed	Under	Under	Under	Under	Under	Under

Table 7: External Debt < Capital Financing Requirement

Prudential Indicators: Limits on Authority to Borrow

37. **Prudential Indicator 6A – Authorised Borrowing Limit** - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 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 “Authorised Borrowing Limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	337.9	342.3	342.9	342.9	342.2	341.0
Other Long term liabilities	20	20	20	20	20	20
Total	357.9	362.3	362.9	362.9	362.2	361.0

Table 8: Authorised Borrowing Limit

38. Prudential Indicator 6B – Operational Boundary. In addition to the “authorised Borrowing Limit”, there is a limit which is the maximum level of debt allowed for, on an ongoing operational purpose. This is the Operational Boundary. The Operational Boundary in reality would only be breached because of in year cash flow movements. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt

Operational Boundary £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	307.9	332.9	332.9	332.9	332.2	331.0
Other Long term liabilities	20	20	20	20	20	20
Total	327.9	352.9	352.9	352.9	352.2	351.0

Table 9: Operational Boundary

39. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, known as the HRA Debt Limit. This limit is currently:

HRA Debt Limit £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total HRA	145.97	145.97	145.97	145.97	145.97	145.97

Table 10: HRA Debt Limit

Economic Background

40. The economic situation is the background to which all treasury management activities operate. It assists in the formation of the treasury management strategy as it details the current economic and market environment. Further information on the current economic environment is available on request.

Prospects for Interest Rates

41. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions the Council contracts Sector as its treasury adviser. Part of their service is to assist the Council in formulating a view on interest rates. Annex A draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interests rates. Table 11 gives Sector’s central view:

Annual Average %	Bank Rate	PWL B Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

Table 11 – Sector's Bank Rate forecast for financial year ends

42. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.
43. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.
44. This challenging and uncertain economic outlook has several key treasury management implications:
- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - Investment returns are likely to remain relatively low during 2013/14 and beyond;
-

- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns

Borrowing Strategy

45. The Council undertakes long term borrowing in accordance with the capital expenditure requirements of the capital programme. The Council's borrowing requirement is known as the Capital Financing Requirement (CFR) as explained above in paragraph 15. As a result of the capital programme 2013/14 to 2017/18 the borrowing is projected to increase by £8.050m over the next 5 years. The CFR (the Council's actual need to borrow) does not necessarily increase by this £8.050m as a minimum amount of revenue provision is set aside every year in accordance with statutory requirement and this therefore reduces the actual amount that is required to be borrowed. This will see the level of debt maintained around £258.6m.
46. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the above interest rate forecast. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
47. It is therefore beneficial to have a borrowing strategy where consideration is given to taking some longer term borrowing if favourable rates arise and also use some cash reserves.
48. External borrowing will be considered throughout the financial year when interest rates seem most favourable. A target interest rate in light of table 11 above is 4%. This will enable borrowing to be taken through the year at different time periods. Consideration will also be given to the maturity profile of the debt portfolio so the Council is not exposed to the concentration of debt being in any one year.
49. Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury
-

operations. The Director of Customer Business and Support Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

50. The HRA strategy in 2013/14 for borrowing will be the same as the borrowing strategy described above for the whole Council. However, it is not expected that the HRA will take any further borrowing in the foreseeable future. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.

51. All decisions will be reported to the appropriate decision making body – Cabinet - at the next available opportunity.

Prudential Indicators – Limits on Borrowing Activity

52. There are three debt / borrowing related prudential indicators. The purpose of these are to constrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
 - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
-

- Maturity structure of borrowing. This gross limit is set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

53. These three debt/borrowing related prudential indicators are calculated to include the debt undertaken for the HRA as well as the remaining borrowing debt portfolio.

£m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Interest rate Exposure					
	Upper	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	109%	109%	109%	109%	109%
Limits on variable interest rates based on net debt	-9%	-9%	-9%	-9%	-9%
Maturity Structure of borrowing 2012/13					
	Lower		Upper		
Under 12 months	0%		30%		
12 months to 2 years	0%		30%		
2 years to 5 years	0%		40%		
5 years to 10 years	10%		50%		
10 years and above	30%		90%		

Table 12: Limits on Interest rate exposure and the Maturity Structure of Borrowing

Policy on Borrowing in Advance of Need

54. The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
55. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. Any borrowing decision in advance of need will be considered carefully to ensure that value for money can be demonstrated, it is affordable, sustainable & prudent, that the treasury management revenue budget can support the borrowing finance costs in the longer term and that the Council can ensure the security of such funds if invested.
56. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that ensures that total gross debt, does not, except in the short term, exceed the total of the CFR in the

preceding year 2012/13 plus the estimates of any additional CFR for 2013/14 and the following two financial years.

57. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

58. It is forecast that short term borrowing rates will be considerably cheaper than longer term fixed interest rates in the foreseeable future. Therefore, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury management position, the short term nature of the loans, the costs of premiums involved in premature repayment for existing debt and the likely cost of refinancing those short-term loans, once they mature.
59. Debt rescheduling will also be considered for the HRA and the costs and benefits assessed to ensure value for money.
60. The reasons for any rescheduling to take place will include:
- a) the generation of cash savings and / or discounted cash flow savings;
 - b) helping to fulfil the strategy outlined above, and
 - c) enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
61. Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
62. Any rescheduling will be reported to Cabinet, in accordance with the usual monitoring cycle.

Annual Investment Strategy

Investment Policy

63. The Council's investment policy has regard to the Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 CIPFA's Treasury Management in Public Services Code of
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Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”).

64. The Council’s investment priorities are the security of capital and liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
 65. The borrowing of monies specifically to invest or lend on and make a return is unlawful and the Council will not engage in such activity.
 66. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
 67. Furthermore, the Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.
 68. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 69. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The
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intention of the strategy is to provide security of investment and minimisation of risk.

70. Investment instruments identified for use in the financial year are listed in annex B under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set out in the later section - the Investment Strategy.
71. The Council continues to take a prudent approach to investing funds as set out in the Creditworthiness Policy below.

Creditworthiness Policy

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

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

73. This modelling approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (Credit Default Swap) 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 determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years*
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	not to be used

**This category is for AAA rated Government debt or its equivalent;*

74. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
75. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of A-, and a Support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
76. All credit ratings will be monitored on an ongoing basis as information is provided weekly basis and also adhoc. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service:
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.
77. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.
78. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment Strategy

79. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The Council uses matrices that stipulate both time and financial limits in order to spread counterparty (credit) risk when investing money with approved counterparties. The matrices are based on the projected average balance for the year. Therefore for 2012/13 with the average balance forecast to be between £20m and £60m, the matrix stipulates a limit for £8m for counterparties with a durational band of 3 months and £15m longer than 3 months.
80. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Qtr 4 of 2014. Bank rate forecasts for financial year ends (March) are:
- | | |
|---------|--------|
| 2012/13 | 0.50% |
| 2013/14 | 0.50% |
| 2014/15 | 0.750% |
| 2015/16 | 1.75% |
81. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.
82. For its cash flow generated balances, the Council will seek to utilise, business reserve accounts (call accounts), 15 to 30 day notice accounts, short dated fixed term deposits and money market funds. 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 within the risk parameters set by this council.
83. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:
- | | |
|---------|-------|
| 2012/13 | 0.50% |
| 2013/14 | 0.50% |
| 2014/15 | 0.60% |
| 2015/16 | 1.50% |
-

84. Therefore for 2013/14, the Council has budgeted for an investment return target of 0.05% on investments placed during the financial year and uses the 7 day LIBID rate as a benchmark for the rate of return on investment.
85. **Prudential Indicator 9** - total principal investment funds invested for greater than 364 days. This limits is set with regards to the Council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £10m
86. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the Council's overall surplus funds and are also pertinent to the HRA.

Policy on the use of external service providers

87. The Council uses Sector as its external treasury management advisors.
88. 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.
89. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation and the Role of the Section 151 Officer

90. Those charged with governance are responsible for the treasury management activities and are clearly defined within the organisation. Attached at Annex D are the Treasury Management Scheme of Delegation and also the Treasury Management role of the section 151 officer (Director of Customer & Business Support Services).

Consultation and Options

91. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are
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delegated by the Council to the Director of Customer & Business Support Services, who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices. In order to inform sound treasury management operations the Council works with its Treasury Management advisers, Sector. Sector offers the Council a comprehensive information and advisory service to enable the Council to maximise its investment returns and minimise the costs of its debts.

92. Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.

93. At a strategic level, there are a number of treasury management options available which depend on the Council's stance on interest rate movements. The report sets out the Council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Council Plan

94. The Treasury Management Strategy Statement and Prudential Indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's Plan.

Implications

95. Implications of the report are as follows:

- **Financial** – The revenue implications of the treasury strategy are set out in the Revenue Budget report also on this agenda.
 - **Human Resources (HR)** – None
 - **Equalities** – None
 - **Legal** – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury
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Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

- **Crime and Disorder** – None
- **Information Technology (IT)** – None
- **Property** – None

Risk Management

96. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

97. The Cabinet are asked to recommend that Council approve:
- a. The proposed Treasury Management Strategy for 2013/14 including the annual investment strategy and the minimum revenue provision policy statement;
 - b. The Prudential Indicators for 2013/14 to 2017/18 in the main body of the report;
 - c. The Specified and Non-Specified Investments schedule (Annex B)
 - d. The Scheme of Delegation and the Role of the Section 151 Officer (Annex D)

Reason: To enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

Contact Details

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Ross Brown

Chief Officer Responsible for the report:

Ian Floyd - Director of Customer and Business Support Services

**Report
Approved**

☐ Y

Date 12/02/13

Specialist Implications Officer(s)

Implication ie Financial

Name: Ian Floyd

Title: Director of CBSS

Tel No.: 01904 551100

Implication ie Legal

Name: Andrew Docherty

Title: Assistant Director -

Governance & ICT

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Wards Affected:

All

☐ Y

For further information please contact the author of the report

Background Papers

Prudential indicator workings 2012/13 to 17/18

Treasury management budget 2013/14

Capital programme 2012/13 to 2017/18 report

Capital budget control 2012/13 to 2017/18.

Sector -treasury management advisers commentary.

Annexes

Annex A – Interest Rate Forecast

Annex B – Specified and Non-Specified Investments categories
Schedule

Annex C – Approved countries for investments

Annex D – Scheme of Delegation and the Role of the Section 151
Officer

ANNEX A - Interest Rate Forecast 2013/2016

Sector's Interest Rate View														
	Now	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6 Month LIBID	0.54%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12 Month LIBID	0.88%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%
5yrPW IB Rate	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yrPW IB Rate	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yrPW IB Rate	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yrPW IB Rate	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate														
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yrPW IB Rate														
Sector's View	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.85%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.85%	1.55%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yrPW IB Rate														
Sector's View	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.87%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.87%	2.55%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yrPW IB Rate														
Sector's View	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	4.02%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	4.02%	3.70%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yrPW IB Rate														
Sector's View	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.15%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.15%	4.00%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Annex B**Specified and Non-Specified Investments Categories**

A variety of specified and non-specified investment instruments will be used to place the Council's surplus funds. These investment instruments are, subject to the credit quality of the institution. The criteria, time limits and monetary limits applying to institutions or investment vehicles are list in the tables below.

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.

SPECIFIED INVESTMENTS:

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

Institution / Counterparty	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	UK Sovereign rating	In-house
Term deposits – local authorities	UK Sovereign rating	In-house
Term deposits – banks and building societies	Coded: Orange on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating from Standard & Poors and Moody's	In-house
UK Part nationalised banks	Coded: Blue on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2	In-house and Fund Mangers

	Or equivalent rating from Standard & Poors and Moody's	
Collateralised deposit	Coded: Orange on Sectors Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Coded: Orange on Sectors Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies	F Coded: Orange on Sectors Matrix / Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA-, Individual B, Support 2 or equivalent rating from Standard & Poors and Moodys	In-house and Fund Mangers
UK Government Gilts	Coded: Orange on Sectors Matrix / UK Sovereign rating	In-house buy and hold and Fund Mangers
Bonds issued by multilateral development banks	Coded: Orange on Sectors Matrix / Long term AAA	In-house buy and hold and Fund Mangers
Bonds issued by a financial institution which is guaranteed by the UK government	Coded: Orange on Sectors Matrix / UK Sovereign rating	In-house buy and hold and Fund Mangers
Sovereign bond issues (other than the UK govt)	Coded: Orange on Sectors Matrix / Sovereign rating	In-house buy and hold and Fund Mangers
Treasury Bills	Coded: Orange on Sectors Matrix / UK Sovereign rating	Fund Mangers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Short-term F1, Long-term AAA	In-house and Fund Mangers
2. Money Market Funds	Short-term F1, Long-term AAA	In-house and Fund Mangers
3. Enhanced cash funds	Short-term F1, Long-term AAA	In-house and Fund Mangers
4. Bond Funds	Long-term AAA	In-house and Fund Mangers
5. Gilt Funds	Long-term AAA	In-house and Fund Mangers
6. Property Funds	Long-term AAA	In-house and Fund Mangers
UK Nationalised Banks	UK sovereign rating	In-house and Fund Mangers
UK Part nationalised Banks	UK sovereign rating	In-house and Fund Mangers

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	100%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Coded: orange (1yr) red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Coded: orange (1yr) red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house buy and hold and Fund Managers	30%	1 Year
Commercial paper issuance covered by a specific UK Government guarantee and issued by banks covered by the UK bank support package	UK Sovereign rating	In-house and Fund Managers	30%	1 Year
Commercial paper other	Coded: orange (1yr) red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	30%	1 Year

Corporate Bonds	Coded: orange (1yr) red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	1 Year
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers	30%	
Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Property fund: the use of these investments would constitute capital expenditure	--	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Local Authority mortgage guarantee scheme	Coded: orange (1yr) red (6mths) and green (3mths) on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house		

2. Maturities in excess of 1 year

Term deposits – local authorities	--	In-house	10%	> 1 year
Term deposits – banks and building societies	Coded: Purple(2yrs) or Yellow (5yrs) on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Support 2 Or equivalent rating from Standard & Poors and Moody's	In-house	10%	> 1 year
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	UK Sovereign	In house and Fund Managers	10%	> 1 year
Certificates of deposits issued by banks and building societies covered by the UK government banking	UK Sovereign	In house and Fund Managers	10%	> 1 year

support package				
Certificates of deposits issued by banks and building societies NOT covered by the UK government banking support package	Coded: Purple(2yrs) or Yellow (5yrs) on Sectors Matrix / Short-term F1+, Long-term AA-, Support 2	In house and Fund Managers	10%	> 1 year
UK Government Gilts	UK Sovereign rating	In-house and Fund Managers	10%	> 1 year
Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	10%	> 1 year
Sovereign bond issues (i.e. other than the UK govt)	Long term AAA	In-house and Fund Managers	10%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Bond Funds	Long-term AAA	In-house and Fund Managers		
2. Gilt Funds	Long-term AAA	In-house and Fund Managers		

Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

- France
- Hong Kong
- U.S.A.

AA

- Abu Dhabi
- Qatar
- UAE

AA-

- Belgium
 - Japan
 - Saudi Arabia
-

Treasury Management Scheme of Delegation**(i) Cabinet / Full Council**

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

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(iii) Audit & Governance Committee

- receiving and scrutinising reports on treasury management policies, practices and activities
- scrutinising the annual strategy, annual outturn and quarterly updates.

(iv) Director of resources (Section 151 Officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the Council to the Director of Customer & Business Support Services, who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The Treasury Management Role of the Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
 - all operational decisions delegated by the Council to the Director of Customer & Business Support Services (S151 Officer), who operates within the framework set out in this
-

strategy and through the treasury management policies and practices

- 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.



Audit and Governance Committee

13 February 2013

Report of the Director of Customer & Business Support Services

CYC Audit Progress Report 2012/13- Mazar's External Auditors**Summary**

1. The paper attached at Annex A from Mazar's – the Council's external auditors - reports on progress in delivering their responsibilities as auditors.

Background

2. The report covers:
 - (a) Transitional arrangements from the Audit Commission
 - (b) Progress on the Audit for 2012/13
 - (c) Forthcoming Events to assist delivery of the final accounts process
 - (d) Audit Commission publications

Consultation

3. Not relevant for the purpose of the report.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Not relevant for the purpose of the report.

Council Plan

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements.

Implications

7. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

8. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

Recommendations

9. Members are asked to note Mazar's, the Council's external auditors, Audit progress Report – January 2013

Reason

To make members aware of Mazar's progress in delivering their responsibilities as external auditors.

Contact Details

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Director of Resources
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**Report
Approved**



Date 13/02/13

Specialist Implications Officers

Not applicable

Wards Affected:

All



For further information please contact the author of the report

Background Papers:

None

Annex

External Audit Fee Planning Letter 2012/13

City of York Council

Audit Progress report

January 2013

Contents

1.	Introduction	2
2.	Transition from the Audit Commission	2
3.	Progress on the audit	2
4.	Forthcoming Events	3
5.	Audit Commission publications	3

This document is to be regarded as confidential to City of York Council. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this document, or any part of it, is disclosed to a third party, our written consent must first be obtained.

1. Introduction

The purpose of this paper is to provide the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight recent Audit Commission reports and other publications which may be of interest to Committee members.

If you require any additional information, please contact your Engagement Lead or Senior Manager using the contact details below:

Engagement Lead	Steve Nicklin (Director)	Steve.Nicklin@mazars.co.uk 0191 383 7300
Senior Manager	Lynn Worth	Lynn.Worth@mazars.co.uk 07816 310322

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector – including Academies, Universities, Sixth Form Colleges and Housing Associations (both Internal and External Audit).

2. Transition from the Audit Commission

As from 1st November 2012, former Audit Commission staff transferred to Mazars. Your audit Engagement Lead remains unchanged and we are committed to continuing to provide a high quality audit.

3. Progress on the audit

We are making good progress with our audit planning and risk assessment process, having recently met with the Council's central finance team, Internal Audit and senior officers. We have issued our 2012/13 fee planning letter, confirming that at this stage we consider the Audit Commission's published scale fee to be appropriate.

We will bring our Audit Strategy Memorandum to the next Audit and Governance Committee. This is a comprehensive report, required by auditing standards. It sets out our overall audit approach as well as any key risks we have identified for the audit and covers both the opinion on the financial statements and the Value for Money conclusion.

Work is currently under way to document and test the Council's key financial systems, and to update our Value for Money and IT risk assessments.

4. Forthcoming events

Mazars is hosting Chief Accountants' workshops for public sector clients on 25 and 27 February 2013 in Durham and York, as part of its commitment to ensuring smooth and successful audit delivery in this important first year.

We have also held early discussions with the Council's chief accountant to confirm, at a local level:

- Closedown arrangements
- Action taken in response to issues raised in 2011/12
- New Code requirements.

5. Audit Commission publications

Reducing the cost of assessments and reviews

This is the third in a series of briefings looking at how councils and their partners can achieve better value for money in adult social care. It focuses on the assessment and review process and examines how some councils' have managed to keep their costs low whilst continuing to meet vulnerable people's needs.

A benchmarking tool and methodology are available on the Commission's website to help councils compare their costs, staffing and activity levels against other similar authorities. Where costs are high, councils should investigate the reasons, assess how local circumstances affect their costs, and identify the scope for making savings. But all councils, including those with relatively low costs, can use this tool to identify the scope for further savings.

Protecting the public purse

This report finds that councils are targeting their investigative resources more efficiently and effectively, detecting more than 124,000 cases of fraud in 2011/12 totalling £179 million. But it urges them not to drop their guard, as new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools. An updated checklist also gives organisations an opportunity to consider how effective they are at responding to the risk of fraud

Striking a Balance

Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium-term financial plans and setting annual budgets.

The report encourages English councils to focus more attention on the 2.9 billion set aside in their reserves, and calls for greater clarity from councils about the reasons for holding reserves.

Tough times

The report finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible. A sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver their budgets. The report says that auditors are concerned that 12 per cent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 per cent will cope in 2012/13, but may struggle in the remaining years of the Spending Review period.

Auditing the Accounts 2011/12

This report summarises the results of auditors' work for 2011/12 at councils, fire and rescue authorities, police bodies, other local government bodies, parish councils and internal drainage boards.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2012 at 98 per cent of councils, all fire and rescue authorities, 97 per cent of police bodies, all other local government bodies, 97 per cent of parish councils and 97 per cent of internal drainage boards. This is an improvement for all types of body compared with 2010/11.



Audit and Governance Committee

13 February 2013

Report of the Head of Internal Audit

Fraud Risk Assessment

Summary

- 1 The purpose of this report is to inform Members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address those risks.

Background

- 2 Fraud is a significant issue for all public sector organisations. Current estimates suggest fraud costs the public purse in excess of £20bn per year. To help direct counter fraud resources to the areas most needed, it is essential that the council considers the range of fraud risks it faces.

Risk Assessment

- 3 An assessment of fraud risks faced by the council is included at exempt annex 1. This builds on assessments completed over the last two years and gives an indication of the susceptibility of each area to fraud along with planned action by the internal audit and counter fraud teams. This model will continue to be developed in future years as more information becomes available and new techniques are developed.

Review Against Good Practice

- 4 In addition to the risk assessment, a review against current good practice for counter fraud arrangements has been undertaken. This includes information taken from:
 - Cipfa Red Book 2 – Managing the Risk of Fraud
 - The Audit Commission's Protecting the Public Purse, 2012

- The National Fraud Authority (NFA) – Fighting Fraud Together, 2012

5 While overall counter fraud arrangements are good, the review has identified a number of areas for further development in 2013/14, as set out below:

- Undertake a further review of the overall counter fraud strategy, in order to develop clear goals and actions, better quantification of the outcomes of counter fraud work, and ensure fraud response arrangements are up to date.
- Continue to undertake fraud awareness training in key service areas, and roll out general fraud awareness training through the introduction of the NFA's e-learning tool.
- Promote further development of whistleblowing arrangements, to ensure that channels for reporting fraud are clear and well publicised.
- Review agreements in place between the counter fraud team, external partners, and internal departments to ensure they support joint working.
- Undertake a further review of counter fraud arrangements in relation to specific service areas including recruitment, procurement, and housing fraud (in particular developing relationships with other social housing providers).

Consultation

6 This report is part of the ongoing consultation with stakeholders on priorities for internal audit and counter fraud work.

Options

7 Not relevant for the purpose of the report.

Analysis

8 Not relevant for the purpose of the report.

Council Plan

9 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and honesty

and by helping to make the council a more effective organisation.

Implications

10 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

11 The council will fail to comply with proper practice if counter fraud arrangements are not based on an appropriate assessment of risk.

Recommendations

12 Members are asked to;

- comment on the fraud risk assessment set out in Annex 1, and proposed priorities for counter fraud work set out in the Annex and at paragraph 5.

Reason

To ensure that scarce audit and counter fraud resources are used effectively.

Contact Details

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**Report
Approved**



Date 31 January
2013

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- The Audit Commission – Protecting The Public Purse 2012
- The National Fraud Authority – Fighting Fraud Together
- Cipfa – Red Book 2 – Managing The Risk of Fraud

Annexes

Exempt Annex 1 - Counter Fraud Risk Assessment

Document is Restricted

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Audit and Governance Committee

13 February 2013

Report of the Head of Internal Audit

Internal Audit Plan Consultation

Summary

- 1 The purpose of the report is to seek Members' views on the priorities for internal audit for 2013/14, to inform the preparation of the annual audit plan.

Background

- 2 In accordance with proper practice¹, internal audit plans are prepared on the basis of a risk assessment. This is designed to ensure that limited audit resources are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the council's corporate priorities and objectives. Consultation with members and with senior council officers is an essential part of the risk assessment process, to ensure that their views on the risks facing the organisation are taken into account.

2013/14 Audit Plan

- 3 It is intended to follow the same approach used in the last two years in setting the 2013/14 audit plan. Audits will include a mix of areas that have historically been a high risk (for example in areas such as the main financial systems where the volume and value of transactions processed are so significant that regular audit is essential) and other reviews targeted towards areas of increased risk due to change. Where changes are occurring, the audits may include (a) direct support to the change process itself, (b) reviews of the

¹ Proper practice is currently set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK. From April 2013 this will be replaced by the Public Sector Internal Audit Standards and specific guidance on these standards for local government, to be issued by CIPFA. The requirement for engagement with senior managers and members in the audit planning process will remain the same.

project management arrangements, or (c) consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls. Figure 1 below sets out the areas which are felt to be a priority for internal audit for 2013/14.

- 4 Members views are sought about whether:
- a) the proposed approach to determining priorities for the 2013/14 audit plan, set out above, is reasonable
 - b) there are areas in addition to those listed in figure 1 which should be considered as a priority for review.

Figure 1 – Priorities for Audit 2013/14

Area	Possible Scope of Work
Impact of Office Moves	business continuity, staff travel, central document management (for example scanning and storage), home working (health and safety and IT implications)
Adult Social Care	direct payments
Major Projects	community stadium, libraries social enterprise
Human Resources	apprentices, sickness/absence management
Information Security	information security checks (to include West Offices and Hazel Court)
CANS	policies and procedures in place for undertaking private works, charging policies, and the management of surplus and scrap materials
Social care establishments	establishment audit focussing on security and cash handling procedures following the implementation of new procedures during 2012/13
Changes in Council Tax and NNDR rules	localisation of NNDR collection, Leeds City Region Business Rates Pool, new council tax support scheme (including crisis loans and community care grants)

Key Corporate Risks	capital programme, savings (planning, monitoring and achievement)
Main Financial Systems	general ledger, creditors, debtors, treasury management, income & cash handling, payroll
Public Health	planning, commissioning and management of new public health services

Consultation

- 5 This report is part of the ongoing consultation with stakeholders on priorities for internal audit work.

Options

- 6 Not relevant for the purpose of the report.

Analysis

- 7 Not relevant for the purpose of the report.

Council Plan

- 8 The work of internal audit supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 9 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 10 The council will fail to comply with proper practice if appropriate officers and members are not consulted on the content of audit plans.

Recommendations

- 11 Members are asked to;
- Comment on the proposed approach to internal audit planning for 2013/14 and identify any specific areas which should be considered a priority for audit

Reason

To ensure that scarce audit resources are used effectively.

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**Report
Approved**



Date 31 January
2013

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

None