Borough Council of
King's Lynn &
West Norfolk

RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE

Tuesday 25 February 2014
at 6.15 pm or upon the rising of the Resources and Performance Panel meeting, whichever is the later

Committee Suite
King's Court
Chapel Street
King's Lynn
Norfolk PE30 1EX

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Borough Council of
King's Lynn &
West Norfolk

King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX.
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17 February 2014

Dear Member

Resources and Performance – Audit and Risk Committee

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday 25 February 2014,** at **6.15 pm or upon the rising of the Resources and Performance Panel meeting, whichever is the later** in the **Committee Suite, King's Court, Chapel Street, King's Lynn, Norfolk** to discuss the business shown below.

Yours sincerely

Chief Executive

A G E N D A

1. Apologies for absence

To receive any apologies for absence.

2. Minutes

To approve the minutes of the Resources and Performance – Special Audit and Risk Committee meeting held on 26 November 2013 (previously circulated).

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on an item or simply observing the meeting from the public seating area.

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the Chairman proposes to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. Members Present Pursuant to Standing Order 34

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

6. Chairman's Correspondence (if any)

7. Matters referred to the Committee from other Council Bodies and responses made to previous Committee recommendations/requests

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which this Panel has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

8. Annual Certification of Claims & Returns - 2012/13 draft report (pages 1 to 10)

Members are invited to note the report.

9. Internal Audit Plan 2013/14 – Progress Report for the Quarter October to December 2013 (pages 11 to 18)

Members are invited to note the report on the Internal Audit Workplan for October to December 2013.

10. Strategic Internal Audit Plan 2014/2017 (pages 19 to 30)

The Committee is invited to note the Strategic Internal Audit Plan for 2014/2017.

11. Cabinet Report: Treasury Management 2014/2015 (pages 31 to 52)

The Committee is invited to consider the report and make any recommendations to Cabinet.

12. Audit and Risk Committee Work Programme (pages 53 to 55)

Committee Members are invited to consider the attached Audit and Risk Committee's Work Programme.

13. Date of Next Meeting

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 25 March 2013.**

To: **Panel Members –** Councillors P Beal (Chairman), C Manning (Vice-Chairman), D J Collis, J Collop, P Cousins, I Gourlay, M Hopkins, H Humphrey, M Langwade, J Loveless, A Morrison, D Tyler, G Wareham, T de Winton and A Wright

Portfolio Holders:

Agenda Items 8, 9, 10 and 11

Councillor N Daubney, Leader and Portfolio Holder for Corporate/Strategic Issues and Resources

Appropriate Officers: The following officers are invited to attend in respect of the Agenda item shown against their name:

Item 9: Kate Littlewood, Audit Manager

Item 10: Kate Littlewood, Audit Manager

Item 11: Lorraine Gore, Chief Financial Officer

Chief Executive

Deputy Chief Executive and Executive Director, Finance and Resources

All other Executive Directors

Press

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INVESTOR IN PEOPLE

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Borough Council of King's Lynn & West Norfolk
King's Court
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28 January 2014

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Dear Members

Certification of claims and returns annual report 2012-13 Borough Council of King's Lynn and West Norfolk

We are pleased to report on our certification work. This report summarises the results of our work on the Borough Council of King's Lynn and West Norfolk's 2012-13 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates, and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified two claims and returns with a total value of £90.9 million. We issued a qualification letter for both the housing benefit and council tax benefit subsidy claim and the national non-domestic rates claim. Details of the qualification matters are included in section 1. Our certification work found errors in both claims which the Council corrected. The amendments had a marginal effect on the grant due for national non-domestic rates. The impact of the amendments to the housing benefit and council tax benefit subsidy claim was minimal. However, it was not possible to make amendments to the claim for many of the issues we detected in this work.

The Council implemented new national non-domestic rates, housing benefit and council tax systems in July 2012. This conversion was not straightforward and was resource intensive. It has had an impact on the Council's ability to address the recommendations made by the previous auditor in the 2011/12 certification report. Details are included in section 1. We have made four recommendations this year. These are set out in section 4.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. In section 2, we have included the actual fees for 2011-12 and their values after the 40% reduction to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the 25 February 2014 Audit and Risk Committee.

Yours faithfully

Rob Murray
Director
Ernst & Young LLP
Enc

Certification of claims and returns annual report 2012-13

Contents

1. Summary of 2012-13 certification work

We certified two claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£52,240,838
Limited or full review	Full
Amended	Amended – subsidy reduced by £3,213
Qualification letter	Yes
Fee - 2012-13 Fee - 2011-12 (actual)	£35,544 (estimate – see section 2) £49,440
Recommendations from 2011-12:	Findings in 2012-13
Consider why the errors identified in the testing occurred and put in place appropriate corrective measures. Such measures may include: ► Assessor training, including particular focus on the areas where errors were found; and ► Reminding staff of the importance of retaining evidence on file.	An in-year system conversion for housing and council tax benefit was performed during 2012-13. The systems conversion was not straightforward and put pressure on the revenues department. This had an impact on the amount of improvement training carried out. Consequently, similar errors were identified throughout the 2012-13 testing.

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. The Council claims subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

Our audit of the BEN01 claim is undertaken in line with the approach agreed with the Department for Work and Pensions (DWP), which requires detailed testing of individual benefit cases. The work undertaken to support certification of the claim is integrated with our audit opinion work.

The Council amended for four errors identified in our initial and extended ‘40+’ testing. They had a small net impact on the claim. However we reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter, as we were unable to agree an appropriate amendment to the claim. The following are the main issues included in our qualification letter from the case testing:

- 29 cases where overpaid benefit had been incorrectly classified. The classification of benefit overpayments impacts the amount of subsidy that the Council receives from the DWP.
- Nine cases where the claimant’s income (or income that should be disregarded) had been incorrectly calculated, resulting in an over payment of benefit;
- One case where the claimant’s rent start date had been incorrectly applied, resulting in an overpayment of benefit;
- Three cases which contained system conversion errors;
- One case where a manual adjustment had been incorrectly calculated, resulting in an overpayment of benefit; and
- 11 cases where backdated expenditure had been incorrectly classified.

Aside from the issues arising from our sample testing of individual housing benefit and council tax benefit cases we reported a number of cross cutting issues in our qualification letter:

- The claim had to be prepared from information from both the old and new benefit systems. However, because there was no longer any system support for the old Northgate system, the latest system upgrades had not been applied. These upgrades can impact the information used in the benefits claim.
- The system suppliers provide a methodology to ensure that the benefit granted by the benefit software reconciles to the benefit paid per the benefit software. There were system reconciliation issues for the new Civica system. This primarily impacted council tax benefit paid, which had an unreconciled difference of £67,269. This issue was beyond the Council's control – Civica informed them that the council tax reconciliation would not work in the year of conversion.

In addition to the qualification letter points noted, above, a number of amendments were made to the BEN01 claim:

- Testing identified a large number of errors in the calculation of modified schemes (benefit claimants with war pensions), resulting in a full review of modified scheme cases by the Council. There were a number of reasons for the errors including:
  - In some instances the £10 national scheme income that can be disregarded in assessing income had been double counted;
  - some of the system parameters relating specifically to modified schemes had been incorrectly entered to the system so were incorrect in the assessment of benefit; and
  - not all elements of claimant war pension had been disregarded for income assessment purposes which is not in line with the Council's policy.
- Three isolated minor amendments were also made to the claim.

Overall, there were a high number of errors identified through our work. This is a complex and high value claim and a degree of escalation in the error rate is not unexpected in a year of system conversion. However, overpayment misclassifications and income assessment errors have been a recurring issue at the Council. We would expect performance to improve significantly during 2013-14.

Our ability to deal with the number of issues identified by the 30 November deadline resulted in the certified claim being submitted on 10 December.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£38,684,993
Limited or full review	Full
Amended	Yes – increased the amount payable to the Government by £259,401 The amendment was made by officers as a result of queries made during the financial statements audit. The queries related to the balances held for NNDR in the Council's balance sheet. This issue, which was in the process of being resolved, was referred to in my Audit Results Report issued in September 2013.
Qualification letter	Yes
Fee - 2012-13 Fee - 2011-12 (actual)	£7,419 £3,500

Scope of work	Results
Recommendations from 2011-12:	Findings in 2012-13
Investigate the reasons for the differences in the NNDR Northgate system reports (which may arise from incorrect report parameters) prior to the drafting of the 2012/13 accounts and resolve the issue noted.	A system conversion for national non-domestic rates was performed during 2012-13. We found some issues with the return and reconciliation process following the conversion to the new Civica system as discussed below.

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We are required to carry out detailed testing of the underlying transactions, including the granting and calculation of reliefs, in the return at least once every three years. This was due in 2012/13, and we are pleased to report that our sample testing did not identify any issues. However, there were complications in the compilation of the return following the in-year system conversion, resulting in an amendment to the claim and a qualification letter to the Department for Communities and Local Government (DCLG).

The amendment to the claim was detected as a result of the financial statements audit processes on the NNDR system reconciliation. The necessary amendment increased the amount payable to DCLG. In addition to the amendment we issued a qualification letter which included issues regarding:

- The system transition and reconciliation; and
- A small error in the calculation of the bad debt provision which had an impact on the losses in collection section of the return.

Civica advised the Council that in the year of system conversion the NNDR3 reports used to prepare the return would not balance. Consequently the Council primarily prepared the NNDR3 return based on ‘Financial Control Reports’, which were balanced on the system transition, although certain adjustments were made. As the Financial Control Reports do not provide the detail on a number of reliefs that are reported in the NNDR3 return, ‘Transaction Control Reports’ or other reports were used to generate some of the figures included in the return. The Authority only received limited guidance from Civica regarding the preparation of the NNDR3 return. We were unable to fully ascertain whether the Council’s approach was reasonable and therefore referred to this in our qualification letter. We understand that the Council has not received any additional queries from DCLG following the receipt of our qualification letter

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for the Borough Council of King's Lynn and West Norfolk for 2012-13 was £30,100. We are proposing variations to the indicative fees for changes in scope on both claims as set out below. We have agreed these final fee variations with officers. The Audit Commission has approved the variation for the National non-domestic rates return, but the variation for the Housing and council tax benefits subsidy claim is still subject to Audit Commission approval.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee	2011-12 fee less 40% reduction	Indicative fee	Actual fee
	£	£	£	£
Housing and council tax benefits subsidy claim	49,440	29,664	28,030	35,544 (Estimate)
National non-domestic rates return	3,500	2,100	2,070	7,419
Total	52,940	31,764	30,100	42,963

Fees reduced overall compared to 2011-12 because of the Audit Commission's 40% reduction. After allowing for the 40% reduction the main difference in fees was in relation to the following:

Housing and council tax benefits claim

The issues contributing to the proposed additional fee are:

- Additional certification work as a result of the system conversion, including the matters raised in my qualification letter;
- An increased error rate which resulted in a higher level of extended testing and higher level of amendments to the claim; and
- Correspondence with the DWP following the submission of our qualification letter.

National non-domestic rates return

The issues contributing to the proposed additional fee are:

- The requirement to carry out detailed testing in 2012/13: Information provided by the Audit Commission shows that the 2010/11 fee (which was used to set the indicative fee for 2012/13) was based on limited testing only. Detailed testing was not undertaken in 2010/11 or 2011/12 by the previous auditor. As a result, we were required to undertake detailed testing in 12/13 in order to comply with the three year cycle requirements. The requirements for detailed testing are considerably more extensive than for limited testing; and
- The system transition which resulted in the reconciliation of the claim to the underlying NNDR system being more complex. The certification work resulted in an amended claim and a qualification letter

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £29,700. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fees.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements for individual claims and returns. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Responsible officer and deadline
1. Housing and council tax benefits subsidy claim: Consider why the errors identified in our testing occurred and put in place appropriate corrective measures, such as assessor training and additional review before the claim is presented for certification. Specific assessor errors include: ► Classification of overpayments ► Miscalculation of claimant income ► Classification of backdated expenditure	High	► Agreed – however the Audit was only completed in November so there are only four months available to check and correct (where necessary) 2013/2014 performance. ► Feedback has already been given to staff, a Checking programme drawn up, an 'Actions Needed' and 'Actions Taken' plan is in place and ongoing monitoring will be undertaken.	Revenues and Benefits Manager April 2014
2. Housing and council tax benefits subsidy claim: Ensure the "paid to granted" reconciliation reconciles in 2013-14.	High	► Agreed but very dependent on our Software Suppliers	Revenues and Benefits Manager April 2014
3. Housing and council tax benefits subsidy claim: Review all modified scheme cases to ensure they have been calculated correctly in 2013-14.	Moderate	► Agreed	Revenues and Benefits Manager April 2014
4. National non-domestic rates return: Ensure that the appropriate system reports are available to support the production of the 2013-14 return. Consult with the software provider at an early stage where there are gaps or reconciliation issues. Ensure that the return fully reconciles to the draft financial statements prior to the financial statements audit process.	High	► Agreed. Process should be more straightforward for 2013/2014 as it is not a conversion year	Revenues and Benefits Manager April 2014

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	**Portfolio:** Performance
Author Name: Kate Littlewood	**CONSULTATIONS:**
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gov.uk	
OPEN	

Committee: **Resources and Performance – Audit & Risk Committee**
Date: **25th February 2014**
Subject: **Internal Audit Plan 2013/14 –progress report for the quarter October to December 2013.**

Summary	This report shows the Internal Audit activity for the quarter October to December 2013 against the Strategic Audit Plan 2013/14.
Recommendation	Members are asked to note the report on the Internal Audit workplan for October to December 2013.

1.0 Introduction and Background

1.1 The Strategic Audit Plan 2013/14, endorsed by the Audit and Risk Committee on 26th March 2013, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 4(1) of the Accounts and Audit Regulations 2011 for the Council to ensure it has a sound system of internal control.

1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

2.0 Audit work in the quarter October to December 2013.

2.1 On completion of each audit a formal report is issued to the relevant line managers, the Executive Director and Portfolio Holder. Copies are also sent to the Chief Executive, Deputy Chief Executive, the Chief Financial Officer and the external auditors, Ernst and Young. The report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

2.2 *Reports issued during the quarter*

The following audits have been completed during the last quarter and reports issued as described above:

- **Payroll** (incl Members expenses and allowances)
- **Treasury and Cashflow Management**
- General IT Controls incl Networks
- Refuse and Recycling
- **Sundry Debtors**
- Document Management Follow-up
- Information Management Follow-up
- Health and Safety Follow-up
- NORA Joint Venture Follow-up
- Performance Management Follow-up

A summary of the reports is attached as **Appendix 1** and the full versions are available under the relevant year to members of the Audit & Risk Committee on InSite.

2.3 W*ork ongoing*

The following audits were ongoing at the end of the quarter and will be reported to the Committee in the next quarterly report:

- **Creditors and Payments**
- **Business Rates Retention Scheme**
- **Council Tax incl CT Support Scheme**
- **Inventories and Asset Management**
- General Ledger Upgrade project

The audits shown in bold are core audits.

The following work is also ongoing but the work is longer term and will not necessarily be reported in the next quarter:

- Major Housing Projects (Lynnsport, Marsh Lane and NORA)
- Local Authority Company/ Leisure Trust

The audits of these major projects differ to the usual systems based approach. The aim is to be more proactive in reviewing the development and progress of the projects on an ongoing basis rather than raise issues retrospectively. Work in this quarter has consisted of attending regular project meetings in respect of the Leisure Trust and discussing progress on the Major Housing Projects. Both projects are being well managed and nothing has arisen to concern the Audit Manager in the last quarter. The reporting will depend on the progress of each project, but interim reports may be issued if an appropriate point is reached.

2.4 *Other work carried out in the quarter*

Apart from the standard audits, Internal Audit also undertook other work during the last quarter including the following:

- National Fraud Initiative (NFI) – work has continued on checking the returned matches.
- The merger of Internal Audit and the Benefits Enquiry Unit has taken place, and the Audit Manager and Investigations Manager are currently

working together to co-ordinate the approach to detecting and preventing fraud.
- Continued work on the development of an Assurance Map on which to base next year's strategic plan. An Assurance Map plots areas of inherent risk and considers what assurances are received from different sources that those risks are being managed adequately. The results of this exercise should highlight where the main residual risks are and enable the Audit Manager to prioritise future audit needs.
- Review and revision of the anti-fraud suite of documents. These will be presented to the Audit and Risk Committee in March 2014.

2.5 *Changes to the Strategic Plan*
Two audits have been deleted from the plan. The Procurement Review was intended to look at the operation of the procurement contract.

The second audit was to review the operations of the Environmental Health Administration section following its move into Planning Administration. However operational changes have already taken place, which address some of the issues to be considered.

A VAT audit has been postponed and has now been included in the planned work for 2014-15. The audit was due to be carried out by the Trainee Accountant during his allocated time with Internal Audit. However he is currently involved with the General Ledger upgrade project in Financial Services and it was agreed that it would be more useful for him to continue with this work.

The Car Parks audit is also affected by this change in plan. However as this is a Core Audit it is necessary for it to be completed within this financial year. As a result an external Internal Auditor has been engaged to carry out this audit. The appointed auditor is very experienced and has been used in this capacity by the Council previously, with satisfactory results.

Care and Repair has been undergoing a Lean review and are transfering from the FEMIS software to IDOX. It was agreed that it would be more beneficial to carry out the audit after this work has been completed. This audit has therefore been postponed and is included in the 2014-15 plan.

3.0 Performance Indicators

3.1 <u>Delivery of the Audit Plan</u> – a target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2013/14.

2013/14 Status of Audits	**Audit days used**	**Percentage of Plan (in days)**
Completed and reported	189	45%
In Progress	111	27%
Removed from plan	51	12%
Planned for future quarters	68	16%
Total Planned Audits	**419**	100%

3.2 Audit Questionnaires returned with satisfactory scores – Satisfaction questionnaires are issued with the final report to the Executive Director for completion and return to the Audit Manager. Five questionnaires were issued in this quarter and at the time of writing the report only one had been returned. This one had satisfactory scores. Reminders will be sent for the outstanding questionnaires.

3.3 Planned audit time – a target of 68% has been set for the full year and for the year to date it has been 68%. This refers to the proportion of the total available time that is spent on planned audit work rather than management, training, general administration and holidays.

4.0 Work planned for the next quarter January to March 2014.

4.1 As well as completing the ongoing work listed in paragraph 2.3, including the project reviews, the following audits are planned for the next quarter:

Audit Title	Days	Date
Housing Benefits	**12**	**Jan**
Car Parks	**15**	**Feb**
Shared Accommodation	8	Feb
Theatres	5	Jan
General Ledger and Budgetary Control	**15**	**Mar**
Environmental Quality	5	Mar
Cemeteries and Crematorium	8	Mar

4.2 Audits shown in bold are Core Audits. These are audits that are carried out every year due to the significant nature of the systems concerned. They are also ones that the external auditors would be looking at as part of the annual financial audit they perform.

5.0 Conclusion

5.1 Progress to date has been satisfactory and at this point nothing has arisen to suggest that the plan will not be completed within the year. If anything does arise that will impact on the completion of the plan, the Committee will be informed at the next available meeting.

5.2 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

Notes to support the summary in Appendix 1

The following tables provide an explanation of the terms used to grade the recommendations contained in the final audit reports, and the overall opinion attributed as the result of each audit.

Recommendations
The observations and recommendations are allocated a grading High, Medium or Low as defined below:

High	Major risk requiring action by the time the final report is issued.
Medium	Medium risk requiring action within six months of the issue of the draft report.
Low	Matters of limited risk. Action should be taken as resources permit.

Please note - ‘Low’ recommendations are not summarised in this report due to the insignificant nature of the issue.

Audit Opinion
At the conclusion of the audit an overall audit opinion is formed for the audit area. The definition for each level of assurance is given below.

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

Audits completed in Q3 2013-14	**Overall Opinion**
Payroll including Members Expenses and Allowances Report published in November 2013. There were 2 Low recommendations.	Full Assurance
Treasury and Cashflow Management Report published in November 2013. There were 3 Medium and 1 Low recommendations. The Medium recommendations related to ensuring the monthly consolidated bank reconciliations are brought up-to-date; that spoilt dealing tickets should be retained on file; and to agree a method of evidencing the authorisation of the electronic reconciliation sheets.	Substantial Assurance
General IT Controls including Networks Report published in November 2013. There were 8 Medium recommendations relating to: • The need for an ICT Strategy • A process for the management of risks relating to various IT standards • A Document Management Project Plan • Plan of review of various IT Security Policies • Compliance monitoring for PCI-DSS and PSN purposes • Confirmation of arrangements for monitoring User Access rights. • Improving control over ICT Inventory records • Testing and updating of Disaster Recovery Plans following an upgrade to the back-up system.	Substantial Assurance
Refuse and Recycling Report published in December 2013 There were 12 Medium recommendations relating to: • Ensuring monthly contract meetings take place • Obtain an explanation of how the contractor calculates the monthly Key Performance Indicator report. • Continue monthly financial meetings with the Service Accountant	Substantial Assurance

Audits completed in Q3 2013-14	**Overall Opinion**
• Remind the contractor to include the Contract Billing (Price) Schedule references on all invoices. • Remind the contractor that the Bulky Reconciliations Summary report should be supported by relevant documentation. • Replenishment of Caddy bin stocks being improved. • Improve trade reporting module. • Complete the recording of black bin serial numbers. • Resolution of contract reporting issues. • Ensure correct treatment of roundings in spreadsheets. • Review, revise and issue procedures notes to reflect the use of 'Whitespace'. • Determine the method of delivery of the Parks and Gardens module in the 'Whitespace' software.	
<u>Sundry Debtors</u> Report published in December 2013. There were 2 Medium recommendations relating to reviewing the procedure notes and re-designing User Access Rights as part of the General Ledger upgrade project.	Full Assurance

Follow-up audits completed in Q3 2013-14	Original report	Follow-up progress
Document Management The report issued in April 2013 contained 2 Medium recommendations. The development of a Document Management Policy is dependent on input from the ICT Manager and development of the ICT Strategy. The enforcement of the password changes required confirmation from the software provider and the implementation of upgrades. Both are in the process of being implemented.	April 2013 Substantial Assurance	October 2013 Good
Information Management The report issued in January 2013 contained 1 Medium recommendation relating to the development of an ICT Strategy relating to Information Management. Work is in progress, but is dependent on the rationalisation of the different systems in place in the Council.	January 2013 Substantial Assurance	November 2013 Good
Health and Safety The report issued in July 2013 contained 1 Medium recommendation, which has now been implemented.	July 2013 Substantial Assurance	December 2013 Good
NORA Joint Venture The report issued in contained 1 Medium recommendation, which has now been implemented.	July 2013 Substantial Assurance	November 2013 Very Good
Performance Management The report issued in April 2013 contained 2 Medium recommendations, both of which have been implemented.	April 2013 Full Assurance	November 2013 Very Good

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	**Portfolio:** Performance
Author Name: Kate Littlewood	**CONSULTATIONS:** Deputy Chief Executive Management Team Internal Audit Team
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gcsx.gov.uk	
If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

Committee: **Resources and Performance – Audit & Risk Committee**
Date: **25th February 2014**
Subject: **Strategic Internal Audit Plan 2014-17**

Summary	This report provides Committee Members with the opportunity to review the proposed Strategic Internal Audit Plan for 2014-17.
Recommendation	To note the Strategic Internal Audit Plan for 2014-17.

1.0 Introduction and Background

1.1 According to the Terms of Reference of the Audit and Risk Committee, one of the Core Functions is to review the Internal Audit's Strategic Audit Plan.

1.2 The Strategic Internal Audit Plan 2014-17 is attached to this report as **Appendices 1 and 2**. The plan indicates the work proposed by the Audit Manager for Internal Audit function for the next three years. The first year is defined and although the work can be adjusted if necessary to accommodate any major occurrences during the year, it is usual for the plan to be completed as shown. The next two years are more flexible and simply provide an indication of the work that is anticipated.

1.3 The overall strategy of the Internal Audit is reviewed on annual basis and is attached as **Appendix 3**.

2.0 Purpose of the Audit Plan

2.1 The Strategic Audit Plan is intended to:

- Ensure all identified areas are audited over the life of the plan, taking in to account clients' audit requirements and the major risks facing the council.

- Ensure there are adequate resources to undertake the required audits.
- Provide a basis for monitoring actual performance of the Internal Audit function.

2.2 The audit work performed to fulfil the plan informs the Audit Manager's opinion that is required in the Annual Governance Statement.

3.0 Preparing the Plan

3.1 The plan was produced on the assumption that the Council will continue in its current form and with the risks that have been identified in the Corporate Risk Register. If either of these changes significantly, the plan will need to be reviewed for any impact on the workload and structure of the Internal Audit function. Any proposed amendments to the plan will be reported to the Committee.

3.2 Within the plan there are 9 Core Audits that are considered by the external auditors, Ernst and Young (EY), and the Audit Manager to be fundamental and are carried out on an annual basis. These cover systems that are essential to the business of the Council or present a significant risk to the achievement of the strategic objectives. These audits are:

- Council Tax and Non-Domestic Rates
- Creditors and Payments
- General Ledger (incl. Budgetary Control)
- Housing and Council Tax Benefits
- Treasury and Cashflow Management (incl. Bank Reconciliations)
- Payroll
- Sundry Debtors
- Inventories and Asset Management
- Car Parks

3.3 The rest of the plan consists of the audit of other, non-fundamental systems and computer systems that are not integral to other audits. There is some allowance for specific tasks that are known to be required and contingencies for other work that previous experience has shown can arise.

3.4 Before work was started on compiling the plan, the Audit Manager reviewed the structure of the Directorates to take into account the changes during 2013. This established the audit universe on which to base an assessment of audit needs for the plan.

3.5 The following considerations were taken into account when assessing which areas to audit:

- Internal Audit's own risk assessment system
- Corporate Risk Register
- The Corporate Business Plan
- Directorate Plans updated for 2013/14
- Date and result of the previous audits.
- Any other reviews relating to specific services.

3.6 Internal Audit's own risk assessment is based on a scoring mechanism completed by the internal auditor at the end of each audit. Systems are scored for the value and volume of transactions; assessments as to the robustness of the internal controls; potential for change through staff turnover, system change or external influences; and the potential impact of any failure to perform as expected.

3.7 The Audit Manager calculated the available audit days by deducting allowances for annual leave, Bank Holidays, training and some management time from the gross number of working days in the year for the staff in the section. This was compared with the number of days required by the draft plan to establish if the resources available are adequate to provide the assurance needed.

3.8 The draft was plan was discussed with the Deputy Chief Executive and Chief Financial Officer, as s151 Officer, and presented to Management Team for discussion and acceptance.

3.9 The Audit Manager, Deputy Chief Executive and Chief Financial Officer are satisfied that the resources are sufficient, after the level of contingencies have been adjusted, and that the proposed plan will provide the level of assurance required.

3.10 During the course of the year, the Committee may request that additional audits are undertaken or that ones already in the plan are brought forward, and the resulting reports presented at future meetings.

4.0 Format of the plan

4.1 The presentation of the plan is different this year. It has been presented in two parts. The first part is the Annual Plan (**Appendix 1**), which deals with 2014-15 only and contains a brief description of the intended scope of each audit together with the planned quarter for the work to take place. The second part is the Strategic Plan (**Appendix 2**) and this provides an indication of allocations for audits in 2015-16 and 2016-17 so that coverage of all areas of the Council can be seen. However the allocations for the later years are indicative only and may change as circumstances arise.

5.0 Outcomes

5.1 As in 2013/14, the Audit Manager will continue to produce quarterly monitoring reports indicating:

- the audit work completed in the quarter
- the results of Follow-ups carried out, especially any issues outstanding
- work ongoing and work intended for the next quarter
- Progress against the Audit Plan
- Results against the Performance Indicators

5.2 This will enable Members to monitor progress against the agreed annual plan and identify any specific reports of interest to be brought to the next meeting.

Audit Title	Days	Scope	Q1	Q2	Q3	Q4
Core Systems						
Council Tax incl CT Support scheme	20	Fundamental reviews of core financial systems, especially relevant to the external audit's (Ernst Young) year end requirements. However these reviews will look further than the key controls required by Ernst Young, to include general testing to enable Internal Audit to provide the required assurance to the Council over its internal controls and to produce the Audit Manager's Annual Report.			20	
Creditors & Payments	18				18	
General Ledger & Budgetary Control	18					18
Housing Benefits	13					13
Treasury& Cashflow Management (Incl Bank Recs)	24				24	
Payroll (incl members expenses)	15			15		
Sundry Debtors	18				18	
Inventories & Asset Management	15					15
Car Parks	15					15
Business Rates Retention Scheme.	15					15
Total Core Systems	**171**		**0**	**15**	**80**	**76**
Risk Based Audits						
Corporate Projects	10	Continuing review of the Major Development Schemes	10			
Financial Services - Technical	10	Look at all services to ensure VAT is being correctly applied to all invoice requests and consider if VAT training is required.		10		
Financial Services - Procurement	8	Carried forward from 2013/14 plan.	8			
ICT - Website Management	10	Development and maintenance of the website.		10		
Property Services - projects team	10	Asbestos register and building maintenance programme.		10		
Legal	10	DPA, FOI & EIR		10		
Food Safety, Health & Safety & Licensing	8	Licensing		8		
Emergency Management	10	Processes to maintain and review the Emergency Plan.		10		
Planning Support	10	Receipt and registering of applications, income management and recording decisions.	10			
Local Authority Company/ Trust	10	To continue monitoring work on establishing the Trust/ Company arrangements	10			
Public Open Space - Streets	10	Cleansing and allotments	10			

Audit Title	Days	Scope	Q1	Q2	Q3	Q4
Business Development - Cemeteries & Crematorium	8	From 2013/14 plan - review the refurbishment project	8			
Resort Services	8	Operations from Trust-run site.				8
Policy & Partnerships	8	Allocation of funds and project management, esp WNP		8		
NORA - Joint Venture and Local Authority company	10	Review of the arrangements for the sale and/or management of built units.	10			
Community Safety - Repairs & Adaptations	8	Care & Repair carried forward from 2013/14 plan.	8			
Performance and Efficiency	5	Annual review of processes to compile the AGS	5			
Democratic Services - regulatory	10	Member training and management of conflicts of interests.		10		
Total Risk Based Audits	**163**		**79**	**76**	**0**	**8**
External Audits						
Water Management Alliance	5		5			
Leisure Trust	10	Review new arrangements. Time specified in Agreement.				10
Total External Audits	**15**		**5**	**0**	**0**	**10**
Total for Planned Audits	**349**		**84**	**91**	**80**	**94**
Other Work						
PRP Calculations	3	Annual check of PRP calculations	3			
Audit Committee	15	Support and report writing	5	3	2	5
National Fraud Initiative	30	Work on returned data matches	5	10	10	5
Risk Management	20	Ongoing risk review and co-ordinating revisions to the risk register	5	5	5	5
Review of Statement of Accounts	5	Annual proof read of draft Statement of Accounts	5			
Fraud Prevention and Detection	20	To develop measures to prevent and detect corporate fraud.	5	5	5	5
Follow ups	10	Allowance for follow-up of audit recommendations				
Contingency - Fraud and Irregularity	15	Allowance for investigating any irregularities that may arise.				
Contingency - Consultancy, ad hoc work and advice	25	For providing advice to management and ad hoc work arising				

Audit Title	Days	Scope	Q1	Q2	Q3	Q4
Total Other Work	143		28	23	22	20
Grand Total	492		112	114	102	114

		Audit Allocation in days	
	2014/15	2015/16	2016/17
Core Systems			
Council Tax	20	20	20
Creditors and Payments	18	18	18
General Ledger & Budgetary Control	18	18	18
Housing Benefits	13	13	13
Treasury& Cashflow Management	24	24	24
Payroll	15	15	15
Sundry Debtors	18	18	18
Inventories & Asset Management	15	15	15
Car parks	15	15	15
Business Rates Retention Scheme	15	15	15
Total Core Systems	**171**	**171**	**171**
Risk Based Audits			
Directorate/ Section/ Team			
Chief Executive			
Regen & Econ Dev		10	
- Regeneration			10
Housing Services			
- Housing Services			
- Housing Strategy			10
Corporate Projects	10		
Resources			
Financial Services			
- Technical	10		
- Procurement	8		
- Service Accountants	Included in service audits		
Revenues & Benefits	Included in Core Audits		
ICT			
- Web Team	10		
- Technical Services		10	
- Network			
- Business Systems			10
- GIS			
- Disaster Recovery incl Business Continuity		10	
Property Services			
- Estates Management		10	
- Data Management System			10
- Projects	10		
- Energy			10
- Administration			
Legal			
- Information	10		
- Land Charges		10	

	Audit Allocation in days		
	2014/15	**2015/16**	**2016/17**
Environment & Planning			
Food Safety, Health & Safety & Licensing			
- Health & Safety			8
- Food Safety		5	
- Licensing	8		
LDF			
Planning Control			
- Conservation		8	
- Planning Control (North)		5	
- Planning Control (South)		5	
- Enforcement (incl s106)			10
Environmental Quality			
- Contaminated Land		10	
- Environmental Quality			10
- Environmental Protection		10	
- Emergency Planning	10		
Planning Support	10		
Commercial Services	10		
Waste & Recycling			10
Public Open Space			
- Grounds Maintenance		10	
- Streets	10		
- Walks/ Parks			10
Business Development			
- Markets		5	
- CCTV		11	
- Cemeteries & Crematorium	8		
- Resort Services	8		
- Town Centre			8
- Business Development			8
- Town Hall		5	
- TIC/ Gaol House		5	
Central & Community Services			
Communications			
- Graphics		8	
- Printing			8
Policy & Partnerships			
- Neighbourhoods & Research			
- Projects programme	8		
Council Information Centre			10
Personnel			
- Training	10		
- Recruitment and staff records			5
Community Safety			

	Audit Allocation in days		
	2014/15	**2015/16**	**2016/17**
- Anti-social behaviour			8
- Repairs & Adaptations	8		
- Environmental Health (Neighbourhoods)			8
- Careline & Handyperson		8	
Performance & Efficiency	5		
Democratic Services			
- Civics		8	
- Regulatory	10		
- Electoral			10
- Councillors claims & allowances	Included in Payroll audit		
Safety & Welfare		10	
Total Risk Based Audits	**163**	**163**	**163**

External Audits			
Water Management Alliance	5	5	5
Leisure Trust	10	10	10
Total External Audits	**15**	**15**	**15**
Total for Planned Audits	**349**	**349**	**349**

Borough Council of
King's Lynn &
West Norfolk

Internal Audit Strategy 2014-15

1. Strategy Statement

The overall strategy of Internal Audit is to produce and deliver a risk based annual audit plan to provide the Council with an independent opinion on the level of assurance that can be placed upon their internal control environments, and to make recommendations to improve them.

The Annual Strategic Plan is prepared, taking into account the Corporate Strategy and various risk assessments, and presented to the Audit and Risk Committee for consideration and endorsement on an annual basis.

2. Definition of Internal Audit

'Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'
Public Sector Internal Audit Standards (PSIAS)

3. Statutory Basis

The requirement for an internal audit function is implied by section 151 of the Local Government Act 1972.

The Accounts and Audit Regulations 2003, regulation 6 specifically requires that local authorities '…*shall maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with proper internal audit practices…'*

The regulations recognise the 'CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom' (the Code) as proper practice in relation to internal audit in local authorities. As such the Internal Audit service will be provided in line with the Code.

4. Internal Audit Objectives and Outcomes

The objectives of the Internal Audit service are defined in the Terms of Reference. In achieving the objectives, the main outcomes from the work of Internal Audit will be:

- Delivery of the Strategic Audit Plan, taking into account necessary changes for unplanned work or revised priorities.
- Issue of audit reports at the conclusion of each audit in accordance with the agreed publication list.
- Delivery of quarterly progress reports to the Audit and Risk Committee
- Provide an opinion on the control environment ,to support the completion of the Annual Governance Statement, which incorporates those internal control aspects required by the Accounts and Audit Regulations 2003 (as amended)
- Provision of ad hoc advice on risk management, control and governance processes.
- Assist managers with the investigation of suspected financial irregularity, fraud or corruption, except Benefit Fraud investigations, in accordance with the Anti-fraud and Anti-corruption Strategy.

5. Key Performance Indicators

PI Ref	Indicator	Target
AUD 1	Delivery of the Audit Plan	95%
AUD 2	Productive time	68%

6. Annual Audit Opinion

Internal Audit's role is to understand the key risks to the Council and to examine and evaluate the adequacy and effectiveness of its systems of risk management, governance and internal control. Each year the Audit Manager will provide her opinion on the effectiveness of the internal control environment to the Audit and Risk Committee. It will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed actions. The opinion will be supported by sufficient, reliable and relevant evidence.

7. Risk Assessment

The Strategic Audit Plan will be based on an assessment of risk in the Council taking in to account the following:

- Internal Audit's own risk assessment system completed at the end of each audit.
- Corporate Risk Register

- External audit comments
- Date and result of previous audits.
- Any other reviews relating to specific services.

8. Resources

The internal audit service will be provided by an in-house team consisting of an Audit Manager, one full time Auditor, one part time Auditor and the equivalent to one day a week from the Trainee Accountant based in Financial Services. The team will be appropriately qualified by the Chartered Institute of Internal Auditors (CIIA) or the Chartered Institute of Public Finance Accountants (CIPFA) or alternative recognised accounting body, and will operate according to the Public Sector Internal Audit Standards.

In addition to the in-house team, provision is made in the budget for the use of an external provider to undertake specialist audits if necessary.

To maintain the skills and knowledge levels required, training assessments of the team will be carried out on an annual basis as part of the Council's appraisal process. The Audit Manager will be responsible for prioritising the identified needs and ensure that the most effective use is made of the available training resources.

9. Audit and Risk Committee

The Terms of Reference relating to the Audit and Risk Committee include a requirement to review and approve, but not direct the Internal Audit Strategy. It is intended that this Strategy will be reviewed on an annual basis and the results presented to the Committee for approval along with the Audit Strategic Plan.

The next date for review will be – March 2014.

AGENDA ITEM 11

REPORT TO CABINET

<table>
<tr><td colspan="2">Open</td><td colspan="3" rowspan="2">Would any decisions proposed :

(a) Be entirely within Cabinet's powers to decide NO

(b) Need to be recommendations to Council YES

(c) Be partly for recommendations to Council NO
and partly within Cabinets powers –</td></tr>
<tr><td>Any especially affected Wards
None</td><td>Mandatory</td></tr>
<tr><td colspan="2" rowspan="2">Lead Member: Councillor Nick Daubney
E-mail:cllr.nick.daubney@west-norfolk.gov.uk</td><td colspan="3">Other Cabinet Members consulted: None</td></tr>
<tr><td colspan="3">Other Members consulted: None</td></tr>
<tr><td colspan="2">Lead Officer:
E-mail: lorraine.gore@west-norfolk.gov.uk
Direct Dial: 01553 616432</td><td colspan="3">Other Officers consulted: Management Team</td></tr>
<tr><td>Financial Implications
YES</td><td>Policy/Personnel Implications
YES</td><td>Statutory Implications (incl S.17)
YES</td><td>Equal Opportunities Implications NO</td><td>Risk Management Implications
YES</td></tr>
</table>

Date of meeting: 4th March 2014

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2014/2015

Summary

The Council is required to receive and approve a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy which covers –

- Capital plans, including prudential indicators
- A Minimum Revenue Provision (MRP) Policy
- The Treasury Management Strategy
- An Investment Strategy

This report covers the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance Accountants (CIPFA) Prudential Code, the Department of Communities and Local Government (DCLG) MRP Guidance, the CIPFA Treasury Management Code and the DCLG Investment Guidance.

This report looks at the period 2013/2017 which fits with the Council's Financial Plan and capital programme. The report is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services, Treasury Solutions.

Recommendations

Cabinet is asked to recommend to Council:

1 **The Treasury Management Strategy Statement 2014/2015, including treasury indicators for 2014/2017.**

2 **The Investment Strategy 2014/2015.**

3 **The Minimum Revenue Provision Policy 2014/2015.**

4 **Adopt the revised Treasury Management Practices (TMPs).**

Reason for the Decision

The Council must produce a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014/2015 by 31 March 2014.

1. Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year and the use of reserves and balances will meet its expenditure. Part of the treasury management operations ensure the cash flow is adequately planned, with surplus monies being invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering maximising investment return.

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

1.3 As a consequence treasury management is defined by CIPFA (Chartered Institute of Public Finance and Accountancy) 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. "

2. Reporting Requirements

2.1 CIPFA's Code of Practice on Treasury Management (revised November 2009) was adopted by this Council in March 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of:
   a. **An annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. This report covers**
      - **the capital plans (including prudential indicators);**
      - **a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);**
      - **the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;**
      - **an investment strategy (the parameters on how investments are to be managed).**

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

   c. An Annual Treasury Report - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated officer is the Chief Financial Officer.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.2 Training

The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in Treasury Management. This especially applies to members responsible for scrutiny. Training was provided for members on the 29 January 2013 and further training will be arranged as required.

2.3 Treasury Management Consultants

The Council uses Capita Asset Services, Treasury solutions (previously named Sector but has recently been rebranded) as its external treasury management advisors.

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

The Council 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.

2.4 The Treasury Management Strategy Statement for 2014/2015 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

3. The Capital Prudential Indicators 2014/2015 – 2016/2017

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

Capital Expenditure. This prudential Indicator is a summary of the Council's capital expenditure plans approved at Council on 5 February 2014:

	Revised Budget 2013/2014 £000s	**Revised Budget 2014/2015 £000s**	**Revised Budget 2015/2016 £000s**	**Revised Budget 2016/2017 £000s**
Major Projects	6,236	11,131	1,631	2,129
Central & Community Services	2,251	1,296	1,437	1,522
Chief Executive	569	95	60	60
Commercial Services	2,698	1,270	654	1,187
Environment & Planning	6	43	0	0
Resources	900	625	400	235
Total	**12,660**	**14,460**	**4,182**	**5,133**

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

	Revised Budget 2013/2014 £000s	**Revised Budget 2014/2015 £000s**	**Revised Budget 2015/2016 £000s**	**Revised Budget 2016/2017 £000s**
Capital Expenditure	**12,660**	**14,460**	**4,182**	**5,133**
Less 50% for the Housing Joint Venture	(2,014)	(2,809)	0	0
Net Capital to Finance	**10,646**	**11,651**	**4,182**	**5,133**
Financed by:				
Capital receipts	937	8,674	2,552	2995
Capital grants	577	604	604	604
S106	190	1546	26	0
Capital reserves	4,847	1152	288	947
Net financing need for the year	(4,095)	325	(712)	(587)

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

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

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

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

The CFR now includes any other long term liabilities (e.g. PFI -private finance Initiatives schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. As at the 31 March 2013 the Council had £436,000 of finance leases within the CFR.

The Council is asked to approve the CFR projections below:

	2013/2014 Estimate £000s	2014/2015 Estimate £000s	2015/2016 Estimate £000s	2016/2017 Estimate £000s
Total CFR	**13,555**	**16,858**	**15,010**	**14,722**
Internal Borrowing	782	514	712	587
External Borrowing	3,313	(189)	0	0
Net Financing Need Total	**4,095**	**325**	**712**	**587**
Less MRP and other financing movements*	(792)	(2,173)	(1,000)	(1,000)
Movement in CFR	**3,303**	**(1,848)**	**(288)**	**(413)**
Closing CFR	**16,858**	**15,010**	**14,722**	**14,309**

*Includes finance lease annual principal payments and the repayment of borrowing.

3.3 MRP Policy Statement – (Minimum Revenue Provision)

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

DCLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the continued use of the Asset Live Method as set out below.

- **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 3) which provides for a reduction in the borrowing need over approximately the asset's life.

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

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

Year End Resources	**2013/2014**	**2014/2015**	**2015/2016**	**2016/2017**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000s	**£000s**	**£000s**	**£000s**
Fund balances / reserves	19,166	18,677	17,923	16,387
Capital receipts	1,146	1879	1377	0
Unapplied Grants	1,062	1,019	1,019	1,019
Total core funds	**21,374**	**21,575**	**20,319**	**17,406**
Working capital*	5,800	5,800	5,800	5,800
Expected investments	**27,174**	**27,375**	**26,119**	**23,206**

* Working capital consists of debtors/creditors/stock and capital grants received in advance. Working capital balances shown are as at the latest balance sheet date 31st March 2013; these may be higher mid year and change at subsequent balance sheet dates.

3.5 Affordability Prudential Indicators

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

Actual and estimates of the 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) against the net revenue stream.

%	**2013/2014 Estimate**	**2014/2015 Estimate**	**2015/2016 Estimate**	**2016/2017 Estimate**
General Fund	4.02	4.02	4.04	3.66

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

3.6 Estimates of the incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the capital programme 2013 – 2017 reported to Cabinet on the 5 February in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support.

Incremental impact of capital investment decisions on the band D council tax

	2013/2014 Estimate	2014/2015 Estimate	2015/2016 Estimate	2016/2017 Estimate
Council tax - band D	£(5.48)*	£(1.55)*	£(4.38)*	£(6.16)*

* The cost per Council tax - band D property is reduced against previous year's estimates due to changes in the calculation of MRP and the decrease in the CFR in future years.

4. Treasury Management Strategy

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2013/2014	2014/2015	2015/2016	2016/2017
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000s	**£000s**	**£000s**	**£000s**
External Debt				
Debt at 1 April	17,814	20,614	20,414	20,214
Expected change in Debt	2,800	-200	-200	-200
Debt at 31 March	**20,614**	**20,414**	**20,214**	**20,014**
The Capital Financing Requirement	16,858	15,010	14,722	14,309
Under / (over) borrowing	**(3,756)**	**(5,404)**	**(5,492)**	**(5,705)**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Chief Financial Officer ensured that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

4.2 Treasury Indicators: Limits to Borrowing Activity

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

Operational boundary	**2013/2014 Estimate £000's**	**2014/2015 Estimate £000's**	**2015/2016 Estimate £000's**	**2016/2017 Estimate £000's**
Debt	25,000	25,000	20,000	20,000

In years 2013/14 and 2014/15, the operational limit has been increased to take account of the borrowing requirements in relation to the joint venture project (NORA).

The above limits do not include a provision for Phase 2 and 3 of the NORA joint Venture – a separate report will be required to Cabinet for approval before construction can proceed to phases 2 and 3.

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

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

- The Council is asked to approve the following Authorised Limit:

Authorised limit	**2013/2014 Estimate £000's**	**2014/2015 Estimate £000's**	**2015/2016 Estimate £000's**	**2016/2017 Estimate £000's**
Debt	30,000	30,000	25,000	25,000

In years 2013/14 and 2014/15, the Authorised limit has been increased to take account of the borrowing which has be required in relation to the joint venture project (NORA). The cashflow forecast for the project recognises that the amount of borrowing will be dependant upon how quickly the houses will sell. If the houses do not sell as forecast, additional short term borrowing will be required to fund the project.

The above limits do not include a provision for Phase 2 and 3 of the NORA joint Venture – a separate report will be required to Cabinet for approval before construction can proceed to phases 2 and 3.

4.3 Current Treasury Position – January 2014

Before looking at future borrowing and investment strategies it is worth noting the Council's current treasury portfolio (31 January 2014):

		Principal £'000	Average Rate %
Fixed Rate Funding	- PWLB	1,200	2.92
	- Market Loans	10,000	3.81
Variable Rate Funding	- Market Loans	5,000	0.35
Total Debt		**16,200**	**2.68**
Total Investments (detailed later in the report)		**32,494**	**0.76**

The current low level of debt follows from the effect of the current spending on the capital programme. £3million of the Variable Rate Funding debt is due for repayment in February 2014, with a further £2million due in April. The majority of which (£4million), was borrowed in respect of the Housing Joint Venture project. Any additional borrowing for the housing joint venture will be dependent upon how quickly the houses will sell.

4.4 Prospects for Interest Rates

The Council has appointed Capita Asset Services, Treasury Solutions, as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services, Treasury Solutions central view.

Annual Average %	**Bank Rate %**	**PWLB Borrowing Rates % (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

4.5 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP (Gross Domestic Product) ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/2015 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

5. **Borrowing Strategy 2014/2017**

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.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/2015 treasury operations. The Council officers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The Council will only borrow if it is financially advantageous to do so.

The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years
- Temporary borrowing from the money markets or other local authorities
- PWLB (Public Works Loan Board) variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available).
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

5.1 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain 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. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2014/2015 £000's	2015/2016 £000's	2016/2017 £000's
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	30,000	25,000	25,000
Limits on variable interest rates based on net debt	25,000	20,000	20,000

Maturity Structure of fixed interest rate borrowing 2014/2015			
	Current Position £M	**Lower limit for portfolio**	**Upper limit for portfolio**
Under 12 months	5	0%	100%
12 months to 2 years	0	0%	100%
2 years to 5 years	0	0%	100%
5 years to 10 years	1.3	0%	100%
10 years and above	10*	0%	100%

**The term of these loans was originally for a seventy year period, 2007 - 2077 (with a lenders option at ten years)*

The lower and upper limits for this indicator have been set at 0% – 100% to maxmise the flexibility of borrowing options over different periods.

5.2 Policy on Borrowing in Advance of Need

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. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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.

5.3 Debt Rescheduling

The Chief Financial Officer will continue to monitor the situation and take advantage of market conditions if they exist to produce revenue savings.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, 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 position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential 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.

All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

6. **Annual Investment Strategy**

Investment Policy

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

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 agengy. Using the Capita Asset Services, Treasury Solutions ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to 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 in producing its colour codings which show the varying degreees of creditworthiness.

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.

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

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

Investment instruments identified for use in the financial year are listed in appendix 3 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

6.1 Creditworthiness policy

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

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

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

Yellow	5 years *
Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Counterparties	Colour (and long term rating where applicable)	Money per institution Limit	Time Limit
Banks *	**yellow**	**As per table 6.2**	**5yrs**
Banks	**purple**	**As per table 6.2**	**2 yrs**
Banks	**orange**	**As per table 6.2**	**1 yr**
Banks – UK part nationalised	**blue**	**£7m**	**1 yr**
Banks	**red**	**As per table 6.2**	**6 mths**
Banks	**green**	**As per table 6.2**	**100 days**
Banks	**No colour**	**Not to be used**	
The Council's transactional bank (The Co-operative Bank)	**No colour**	**<£200,000**	**1 day**
Other institutions limit (i.e. Building Societies)	**-**	**As per table 6.2**	**Dependent upon institution**
DMADF (Debt Management Account Deposit Facility)	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**unlimited**	**unlimited**
Money market funds	**AAA**	**As per table 6.2**	**liquid**
Enhanced money market funds with a credit score of 1.25	**Dark pink / AAA**	**As per table 6.2**	**liquid**
Enhanced money market funds with a credit score of 1.5	**Light pink / AAA**	**As per table 6.2**	**liquid**

The Capita Asset Services, Treasury solutions 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.

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.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services, Treasury solutions creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

6.2 Diversification: this Borough Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Greater amounts of investments will be held with the higher credit rated counterparties as per the table below. Based on an estimated investment portfolio of £27.2m in 2014/2015

Credit Rating	**Maximum investment per institution (£M)**
AAA	8M
AA+	7M
AA/AA+	6M
A+/A	5M

- Group limits where a number of institutions are under one ownership – Investments for the whole group will not exceed the credit rating limit in the table above.

- However, where the intuition (or group) is a UK nationalised/semi-nationalised, the limit is to £7m

6.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4.

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

6.4 Investment Strategy

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).

6.5 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

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

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be a downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove too optimistic.

6.6 The estimated budgeted investment returns on investments included in the Councils Financail Plan as approved by Cabinet on the 5 Febuary are as follows:

2013/2014	0.50%
2014/2015	0. 75%
2015/2016	1.00%
2016/2017	2.00%

6.7 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2014/2015	**2015/2016**	**2016/2017**
Principal sums invested > 364 days	£m 2	£m 2	£m 2
With Local Authorities	10	10	10

Capita Asset Services, Treasury Solutions, the Council's treasury advisors, recommend that due to current market conditions, all investments should be made for periods less than 364 days, due to risk as detailed in 6.1, **unless they are placed with other Local Authorities.** The Council will continue to monitor creditworthiness on a daily basis.

If an investment became available with an institution with good credit quality and recommended duration was more than 364 days, Capita Asset Services, Treasury Solutions would be consulted before the investment was placed. A £2m limit has been set in case of this eventuality.

For its cash flow generated balances, the Council will seek to utilise its business reserve/instant access accounts, 15, 30 and 95 day notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

In-house managed Investments held as at 31 January 2014 are as follows:

Institution	**Long Term Rating**	**Expires:**	**Principal £000's**	**Rate of interest %**
Wyre Forest DC	AAA	14 July 2014	2,000	0.75
Nationwide	A	20 June 2014	2,000	0.58
Natwest 95 day notice	A	21 February 2014	3,000	0.60
Barclays FIBCA	A		2,600	0.65
Barclays FIBCA	A		2,400	0.65
Natwest 95 day notice	A		1,500	0.60
Natwest 95 day notice	A		2,500	0.60
Bank of Scotland	A	11 April 2014	2,000	1.10
Bank of Scotland	A	1 December 2014	2,000	1.00
Bank of Scotland	A	3 December 2014	3,000	1.00
Roydon Parish Council	AAA		4	1.50
Glasgow City Council	AAA	12 November 2015	3,000	0.95
Cheshire West & Chester Council	AAA	20 January 2016	2,000	1.10
Svenska	AA		4,000	0.55
Handelsbanken			490	0.41
BNP Parabis	AAA			
Total Investments			**32,494**	**0.76**

6.8 Alternative options for investment will be considered where opportunities become available as an alternative to traditional investments. These will be assessed in conjunction with Capita Asset Services, Treasury solutions, our Treasury Management Advisors. Further reports will be brought to Cabinet if these types of investment are to be used.

7. End of year investment report

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

8 Treasury Management Practises (TMPs)

8.1 Good practise requires TMPs to be reviewed on an annual basis and any changes made to be reported to members. Changes that have been made include:

- revised country counterparties listing
- revised investment vehicles
- revised minimum lending criteria and credit worthiness policy
- revised authorised limit
- revised Business Disruption Insurance figure
- revised scheme of delegation due to the change of section 151 role from the Deputy Chief Executive, Executive Director Resources to Chief Financial Officer
- revised treasury advisor to reflect new title from Sector to Capita Asset Services, Treasury Solutions

8.2 TMPs are reviewed as risks and market conditions change. In particular credit risk is monitored using our Treasury advisors on a daily basis. A copy of the TMPs are available on the Councils website.

9. Financial Implications

The financial implications of the borrowing and investment strategy and MRP are reflected in the financing adjustment figure included in the Financial Plan 2013/2017 approved at Cabinet on 5 February 2014.

10. Risk Management Implications

There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as Prudential Indicators and Treasury Management Strategies help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk that is seen by the market forces. The action and controls outlined in the report will provide for sound financial and performance management procedures.

11. Policy Implications

There are no other changes in the Treasury Management policy at present, other than those outlined in this report.

12. Statutory Considerations

The Council must set Prudential Indicators and adopt a Treasury Management Strategy and Annual investment Strategy before 31 March 2014.

13. Access to information

Monthly Monitoring reports 2013/2014
Treasury Management Strategy and Annual investment Strategy 2013
The Financial Plan 2013/2017 – A Financial Plan
Capital Programme 2013/2017
Council Website – Treasury Management Practices

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2013/2014

10 June 2013

- Final Accounts and Statement of Accounts for year ended 31 March 2013
- Quarterly Progress Final Report 2012/2013
- National Fraud Initiative – Update on Work

25 June 2013

- Internal Audit Annual Report 2012/2013
- Review of the Effectiveness of Internal Audit Service/Internal Audit Terms of Reference Update
- Risk Management

23 July 2013

- Audit and Risk Effectiveness Review
- Benefit Investigations Unit Annual Report

27 August 2013

- 1st Item Annual Governance Statement (Training session 30 minutes to which all Members will be invited to attend)
- Quarterly Progress Update Quarter 1 2013-2014
- Business Continuity – Annual Update

9 September 2013

1st Item – Statement of Accounts – training session – open to all Members 1 hour)
Special Meeting – to consider the Statement of Accounts 2012/2013
Annual Governance Statement

24 September 2013

No meeting

29 October 2013

- Internal Audit Plan 2013/2014 – Progress report for the quarter July to September 2013
- Internal Audit Benchmarking Exercise
- Proposed Audit and Fraud Team
- Corporate Risk Register

26 November 2013

- Benefit Investigations Unit Half-Year Report – S Munson
- Annual Audit Letter – to be presented by the Council's External Auditor

7 January 2014 – No meeting

27 January 2014 – No meeting

25 February 2014

- Annual Certification of Claims and Returns – 2012/13 draft report.
- Quarterly Progress Report Quarter 3 2013-2014
- Strategic Internal Audit Plan 2014-2015
- Cabinet Report: Treasury management 2014/2015

25 March 2014

- BCKL&WN Audit Plan 2014/2015 (external)

29 April 2014

- Corporate Risk Monitoring Report (October 2013 to March 2014)
- Internal Audit – Strategic Audit Plan 2014/15

Forthcoming Items

Business Continuity/Emergency Planning Training (45 mins) – 1st item – training session – open to all Members) – date to be determined.
Business Continuity – Annual Update