

Borough Council of
**King's Lynn &
West Norfolk**



RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE

**Tuesday 24 June 2014
at 6.00 pm**

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.
Telephone: 01553 616200
Fax: 01553 691663

16 June 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 24 June 2014, at 6.00 pm** in **The Committee Suite, King's Court, Chapel Street, King's Lynn, Norfolk** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies for absence

To receive any apologies for absence.

2. Minutes

To approve the minutes of the Resources and Performance – Audit and Risk Committee meeting held on 9 June 2014 (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).

At the Cabinet meeting held on 11 June 2014 the following responses were made to the recommendations from the Resources and Performance Panel – Audit and Risk Committee meeting held 9 June 2014, on the following items:-.

Revenue Outturn 2013/2014

That the Panel support the recommendations to Cabinet as follows:

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendations as set out in the report to Cabinet:

It is recommended that Cabinet approves:

- 1 The revenue outturn and proposed transfers to reserves for 2013.2014.
- 2 The principle of the calculation for the provision of bad debts and appeals on the Business Rates Retention Scheme.

Cabinet Response: “The Panel’s recommendations were duly taken into account when Cabinet considered the item.”

Capital Programme and Resources 2013/2017

That the Panel support the recommendations to Cabinet as follows:

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendations as set out in the report to Cabinet:

- 1 That Cabinet note the outturn of the Capital Programme to 2013/2014 of £9,477,218.
- 2 That the financial arrangements for the 2013/2014 Capital Programme be approved.
- 3 That Cabinet approve the revised 2014/2017 Capital Programme as detailed in the report.

8. Cabinet Report: Revenues and Benefits Fraud Policy – Introduction of the Civil Penalties for Council Tax (pages 1 to 12)

The Committee are invited to note the report and make any recommendations to Cabinet.

9. Cabinet Report: Annual Treasury Report (pages 13 to 31)

The Committee are invited to note the report and make any recommendations to Cabinet.

10 Audit and Risk Committee Work Programme (pages 32 to 33)

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

11. Date of Next Meeting

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 22 July 2014.**

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

Portfolio Holders:

Agenda Items 8 and 9

Councillor N Daubney, Leader

Councillor Adrian Lawrence, Portfolio Holder for Housing and Community

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

Item 8: Sarah Munson, Fraud Investigations Manager

Item 9: Lorraine Gore, Chief Financial Officer

Chief Executive

Deputy Chief Executive and Executive Director, Finance and Resources

All other Executive Directors

Press

REPORT TO CABINET

Open		Would any decisions proposed :		
Any especially affected Wards	Discretionary / Operational	Be entirely within Cabinet's powers to decide	NO	
		Need to be recommendations to Council	YES	
		Is it a Key Decision	NO	
Lead Member: Cllr Nick Daubney E-mail: cllr.nick.daubney@west-norfolk.gov.uk		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Sarah Munson, Fraud Investigations Manager E-mail: sarah.munson@west-norfolk.gov.uk Direct Dial:01553 616560		Other Officers consulted: David Thomason Kate Littlewood Jo Stanton Rachel Holman Equalities Working Group		
Financial Implications YES	Policy/Personnel Implications YES	Statutory Implications NO	Equal Impact Assessment NO If YES: Pre-screening/ Full Assessment	Risk Management Implications NO

Date of meeting: 1 July 2014

BENEFITS & REVENUES FRAUD POLICY – INTRODUCTION OF CIVIL PENALTIES FOR COUNCIL TAX

Summary

The Investigations Unit, undertake work to prevent and detect benefit, Council Tax Support, Council Tax and Business Rates fraud. This report provides information regarding the proposed use of Civil Penalties for Council Tax only and the proposed use of Prosecution and a sanction of a Simple Caution, for Council Tax and Business Rates.

Recommendation

Cabinet is asked to recommend to Council:

- 1) the proposal for the use of Civil Penalties for Council Tax only.
- 2) the proposal for the use of Prosecution and a sanction of a Simple Caution, for Council Tax and Business Rates.
- 3) to note the inclusion of the investigation of Council Tax and Business Rates fraud.

Reason for Decision

To include the use of Civil Penalties for Council Tax within the existing Benefits & Revenues Fraud Policy when a person fails to supply information requested, knowingly supplies inaccurate information, or fails without reasonable excuse to notify that relevant circumstances have changed, which affect the Council Tax account. To include the use of Prosecution and a sanction of a Simple Caution within the Benefits & Revenues Fraud Policy.

1. Background

1.1 The Benefits & Revenues Fraud Policy sets out the Borough Council's policy on the investigation, prosecution and sanctioning of benefit, Council Tax Support, Council Tax and Business Rates fraud. In bringing any prosecution, the seriousness of the offence will often be seen as the amount of benefit fraudulently claimed. A robust policy is required to protect the Council.

2. Civil Penalties

2.1 Whilst the 1992 Act introduced the potential use of Civil Penalties they were not widely used by authorities. In the current financial climate where the correct calculation of the council tax base has become even more critical to the funding for council and parish services the threat (and if necessary use) of a financial penalty to gain more accurate information becomes more critical. For this reason a number of authorities have now included Civil Penalties as another incentive to applicants and recipients of support to supply accurate and up to date information. The following is proposed to be inserted within the Benefits & Revenues Fraud Policy, to be used for Council Tax only:-

Civil Penalties for Council Tax - (not including benefit)

The Local Government Finance Act 1992 provides that a billing authority may impose Civil Penalties.

Civil Penalties can be imposed where a person fails to supply certain information regarding liability to a billing authority which the authority has requested, or knowingly supplies inaccurate information, and where a person fails without reasonable excuse, to notify a billing authority that an assumption, the authority has made as to exemption or discount is incorrect, or that relevant circumstances have changed.

The initial penalty is £70. In cases where there has been a second refusal for the same information, or a second provision of inaccurate information, this can lead to an additional penalty of £280. A further penalty of £280 may be imposed for each subsequent failure.

2.2 The Civil Penalty would be applied to the Council Tax account and would be recovered using the Council's current methods. It is not yet known the number of people this could affect. Civil penalties tend to be used by Local Authorities where a Council Tax bill payer is in receipt of a Single Person Discount, but fails to report that another adult is in the household and therefore should lose the 25% Single Person Discount.

2.3 It is proposed to include the Prosecution and a sanction of a Simple Caution for Council Tax and Business Rates, discounts, exemptions and reliefs fraud, within the Prosecution Policy. Where a person is convicted of an offence, a Civil Penalty shall **not** also be imposed, in line with regulations.

2.4 The Investigations Unit is now looking at alleged fraud in Council Tax as this directly affects the Council's revenue from 1 April 2013 which needs to be protected. Previous reports to the Audit & Risk Committee have advised of the financial incentive to the Council to be visibly active against fraud. This can have a substantial deterrent effect, reducing the risk of fraud and preventing fraud taking place, detecting and stopping fraud, prosecuting, sanctioning or the use of Civil Penalties. Due to the new scheme there is an increased risk of fraud. Changes in discounts may be avoided and evaded.

3. Policy Implications

3.1 An updated copy of the Benefits & Revenues Fraud & Prosecution Policy, with the inclusion of the investigation of Council Tax and Business Rates fraud is attached as **Appendix 1**. Other than bringing the document up to date on changes in legislation the major changes are the introduction of Civil Penalties for Council Tax only, the Prosecution and a sanction of a Simple Caution for Council Tax and Business Rates and a note on the inclusion of the investigation of Council Tax and Business Rates fraud. (highlighted in the document).

4. Financial Implications

4.1 Financial Implications will include the cost of any prosecution, which varies dependant on the case. Prosecution costs are awarded by the Court. Monies will be recovered where accounts are adjusted following investigation actions. Money will be received from imposing any Civil Penalty but at this stage it is difficult to estimate any level of recovery.

5. Personnel Implications

5.1 None, as the work would be carried out by current staff.

6. Equality Impact Assessment (EIA)

6.1 The Pre-Screening EIA has been completed with the Equalities Working Group as attached.

8. Background Papers

8.1 None.



Pre-Screening Equality Impact Assessment

Name of policy/service/function	Benefits & Revenues Fraud Policy				
Is this a new or existing policy/ service/function?	Existing				
Brief summary/description of the main aims of the policy/service/function being screened. Please state if this policy/service rigidly constrained by statutory obligations	To approve the proposal for the use of Civil Penalties for Council Tax only. To approve the proposal for the use of Prosecution and a sanction of a Simple Caution, for Council Tax & Business Rates fraud.				
Question	Answer				
<p>1. Is there any reason to believe that the policy/service/function could have a specific impact on people from one or more of the following groups according to their different protected characteristic, for example, because they have particular needs, experiences, issues or priorities or in terms of ability to access the service?</p> <p>Please tick the relevant box for each group.</p> <p>NB. Equality neutral means no negative impact on any group.</p>		Positive	Negative	Neutral	Unsure
	Age			✓	
	Disability			✓	
	Gender			✓	
	Gender Re-assignment			✓	
	Marriage/civil partnership			✓	
	Pregnancy & maternity			✓	
	Race			✓	
	Religion or belief			✓	
	Sexual orientation			✓	
	Other (eg low income)			✓	
Question	Answer	Comments			
2. Is the proposed policy/service likely to affect relations between certain equality communities or to damage relations between the equality communities and the Council, for example because it is seen as favouring a particular community or denying opportunities to another?	No				
3. Could this policy/service be perceived as impacting on communities differently?	Yes				
4. Is the policy/service specifically designed to tackle evidence of disadvantage or potential discrimination?	No				
<p>5. Are any impacts identified above minor and if so, can these be eliminated or reduced by minor actions? If yes, please agree actions with a member of the Corporate Equalities Working Group and list agreed actions in the comments section</p>	Yes	<p>Actions: The Investigations Unit will assess the capabilities of individuals understanding of the legislation on a case by case basis before issuing a penalty.</p>			
		<p>Actions agreed by EWG member: Corporate Equalities Working Group</p>			
Assessment completed by: Name Sarah Munson					
Job title Fraud Investigations Manager	Date 24 April 2014				

Appendix 1

BOROUGH COUNCIL OF KINGS LYNN AND WEST NORFOLK

BENEFITS & REVENUES FRAUD POLICY

AIM

To seek to identify and deal effectively with Fraud and impose appropriate sanctions.

Background

Housing Benefit is a major pillar of support from the public purse to those on low incomes. It is a vital form of financial help for some of the most vulnerable members of society. The system of claiming benefit is complex, and, as a result this can lead to error and the potential for fraudulent activity.

Local Authorities have a statutory duty under Section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs, this includes the prevention and detection of Housing Benefit, Council Tax Support, Council Tax and Business Rates fraud.

Council Tax discounts have an effect on the Council's tax base and any change to these also affects the amount of Council Tax raised. If fraudulent discounts are exposed and removed the Council's tax base will increase. Billing Authorities and Precepting Authorities are able to retain their share of the additional income raised from the changes to put towards any purpose.

The local Council Tax Support from 1 April 2013 has a negative effect on the tax base as it increased the reductions given (previously Council Tax Benefit did not affect the tax base) and reduces the income raised through Council Tax for all the Precepting Authorities.

Business Rates collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the Business Rates retention arrangements introduced from 1 April 2013, authorities keep a proportion of the business rates paid locally.

Investigations Unit

The Council has a dedicated Investigation Unit responsible for the investigation of suspected Housing Benefit, Council Tax Support, Council Tax and Business Rates fraud. It is also responsible for the investigation of other Social Security fraud under the Social Security Administration Act 1992. The unit aims to investigate these cases and make recommendations to the Benefit and Revenues Sections for adjudication. This way it maintains its independence.

AGENDA ITEM 8

It is also the policy of the unit to co-operate with other Government agencies in the cases of fraud and to adopt Good Practice and Best Value recommendations where appropriate. The unit has its own code of practice and internal policy and procedures which are followed. The unit also follows the Fraud Procedures and Instructions Manual and associated Fraud Circulars issued by the Department of Work and Pensions (DWP). Where a fraud is identified which involves a member of the Council's staff or is a member of the Council, the unit will liaise with Internal Audit.

The Unit is managed by the Fraud Investigations Manager, reporting to the Audit Manager, together with three Area Investigators and one Administrative Assistant. Investigators are encouraged to undertake the formal training given by the DWP, and are rewarded by progression through salary grades as an incentive to gain the qualification.

The Borough Council will operate and comply in full with the Verification Framework standards, have a detailed policy for considering prosecution and other sanctions for benefit fraud cases, and operate government initiatives wherever possible, and maintain up to date and working Service Level Agreements with the DWP and Fraud Investigation Service.

Freedom of Information, Human Rights, Regulation of Investigatory Powers, Criminal Procedures & Investigations Act and The Data Protection Act

All investigations will strictly adhere to the regulations contained in the above Acts.

The Regulation of Investigatory Powers Act (RIPA) 2000 came into force on 25 September 2000. With effect from that date, all surveillance must be in accordance with that Act, and the Borough Council and DWP has issued a Code of Practice, which must be applied.

From 25 September 2000, authorisation, renewals and cancellations must support surveillance on up to date forms available from the Gov.uk website, within Home Office - Surveillance.

Local Authorities are made aware that the adoption of the statutory code of practice is not an option, it is a requirement, and must be approved by Council. Any surveillance involved in a case, even if it does not form part of the eventual prosecution case, will be deemed unlawful if not properly authorised and could lead to a challenge against the whole case under Article 8 of the Human Rights Act. The authorising officers specified in the Act are Director, Head of Service, Service Manager or equivalent. If surveillance is not properly authorised, it may be subject to legal challenge.

From 1 November 2012 local authorities are required to obtain judicial approval prior to using covert techniques. Local authority authorisations and notices under RIPA will only be given effect once an order has been granted by a Justice of the Peace in England and Wales, a Sheriff in Scotland and a District Judge (magistrates' court) in Northern Ireland.

Additionally, from that date local authority use of directed surveillance under RIPA will be limited to the investigation of crimes which attract a 6 month or more custodial sentence, with the exception of offences relating to the underage sale of alcohol and tobacco.

Investigation Objectives

The Council is committed to the prevention and detection of fraud and the protection of public funds. The unit was established in order that the Council could ensure that its statutory duty to pay only bona fide benefit applications and discounts and exemptions could be met where possible.

The main objectives are:

Prevention: by establishing systems of control and procedures to seek to ensure that only genuine claims are processed and paid.

Detection: by investigating and, where appropriate, recommending the disallowance or reassessment of fraudulent or irregular applications and existing claims.

Deterrence: by creating and developing a culture which discourages applicants from making false claims and ensures those clients who receive benefit, discounts and exemptions fulfil their responsibilities. The consideration of Prosecution or other sanction will be considered in certain cases.

All investigations will be carried out in a professional, objective and efficient manner. The Unit is located within the Audit and Fraud Section and works with other Council Departments and other organisations, including the DWP, in order to provide the most effective anti-fraud resource to the Council.

Targets will be set for the Investigations Unit each year, and will be monitored and reported as part of the Council's quarterly performance management system.

Strategy

The unit has established both referral and investigation procedures to achieve a consistent approach.

It will constantly monitor and update procedures to maintain the best possible service at all times.

It will liaise with other departments within the authority to create a culture of fraud awareness and develop a confidential referral procedure.

It will further liaise and co-operate with external agencies such as, other Local Authorities, Fraud Investigation Service (through Service Level Agreements), Employment Service, and Utility companies holding regular liaison meetings.

It will utilise to best effect any government initiatives to assist the prevention and detection of fraud

Target Areas

The Investigations Unit will have the following specific target areas:

Do not redirect envelopes: Benefits mail is not redirected if for example the recipient has moved. On return of the envelope the circumstances are investigated.

Planning List: A check of planning applications is cross referenced with Housing Benefit and Council Tax Support.

Fraud Referrals: This is the mainstay of the units work. All referrals are prioritised for investigation and allocated to Investigators.

Fraud Hotline: A 24 hour free phone telephone service (out of hour's answer phone) will be maintained to allow the public to report their suspicions. The number will be advertised locally and re-emphasised in all publicity material. An on-line benefit and Council Tax fraud referral is available to complete through the Borough Council of Kings Lynn & West Norfolk's website.

Land Registry Checks: To establish the ownership details of properties that are subject to private letting.

DVLA Checks: Registration details of vehicles observed as part of investigations will be checked using DVLA records, always observing the rules concerning Regulation of Investigatory Powers Act (RIPA).

Observations: The investigation of certain cases requires surveillance or at least drive-bys to gather information. Often this needs to be undertaken out of hours. The unit will undertake all such observations in accordance with RIPA and also in accordance with the Unit's Code of Practice.

Proactive Work: Proactive work will be undertaken as considered necessary depending upon the time and circumstances, e.g. referrals against a particular firm, employer, street/caravan site etc.

Data Matching: The Unit will take part in national data matching exercises undertaken by the DWP and Housing Benefit Matching Service, and investigations will be carried out accordingly. The Unit will also complete internal data matching where required.

Publicity: The unit will undertake to promote throughout the community, awareness of fraud issues. This will include promotion of the fraud hotline, information on Council leaflets and posters, publicising prosecutions and regular press articles to highlight fraud awareness.

Training: The unit is responsible for the organisation of fraud awareness training.

Health and Safety: All of the Unit's activities will be undertaken in accordance with the Council's Health and Safety policies and the Unit's own Code of Practice.

Code of Conduct: The investigators will carry out all activities in accordance with the Authorities codes of conduct and the Human Rights Act.

National Fraud Initiative: The Unit will participate in the National Fraud Initiative administered by the Audit Commission.

Prosecution Policy

This part of the policy sets out The Borough Councils policy on the prosecution and sanctioning of persons who have committed criminal offences against the authority in knowingly/dishonestly obtaining Social Security Benefits, Council Tax Support, **Council Tax and Business Rates discounts, exemptions and reliefs**. The Council will follow The Code for Crown Prosecutors.

Financial Considerations

In bringing any prosecution, the seriousness of the offence will often be seen as the amount of benefit fraudulently claimed. The following amounts will be used in most cases:

- 1) Below £2,000 overpaid = A prosecution would be considered if previous fraud identified or in the public interest. In most cases a simple caution may be given if the offence has been admitted, or an Admin Penalty may be offered if applicable.
- 2) Over £2,000 overpaid = Prosecution would be recommended.

Deciding whether to prosecute

When deciding upon an individual case, the following is a non-exhaustive list of circumstances that will be considered:

- 1) Duration of offence and number of offences.
- 2) Offenders physical/mental conditions.
- 3) Voluntary Disclosure.
- 4) Previous Fraud.
- 5) Social Factors.
- 6) Clarity of evidence.
- 7) Failure in investigation or benefit administration.
- 8) Attitude during interview.

- 9) Whether the offender has a position of trust.
- 10) The offence is deliberate i.e. false from the onset.
- 11) Common sense of Investigator.

The Unit will undertake interviews under caution and prosecution preparation work. The case will then be passed to the Solicitor to the Council to instigate court proceedings.

The final decision upon whether to prosecute will rest with the Audit Manager and the Solicitor to the Council. The final decision will rest with the DWP Solicitors' on jointly worked cases, where it has been agreed that the DWP will prosecute both their benefits and the Council's benefits.

Publicity of all successful fraud prosecutions will normally follow immediately after the sentencing of an offender unless it is considered that further publicity was not in the public's interest.

Administrative Penalties – Social Security Benefits and Council Tax Reduction Scheme

The Social Security Administration Act 1992 as amended by the Fraud Act 1997 allows a local authority to apply an Administrative Penalty as an alternative to prosecution at 30% of the total overpayment. Upon accepting a penalty the claimant has 28 days to change their mind. If a penalty is not accepted or is withdrawn the local authority must be prepared to prosecute, therefore all cases of Administrative Penalty must be of prosecution standard.

Administrative Penalties will generally be considered for fraudulent overpayments of under £2,000 if it was a first offence and/or there was no planning involved in the fraud.

The Council will make an offer of a 30% penalty and this will be added to the overpayment which is recoverable.

Cases where an offence has been committed wholly, or an attempt is made, where an offence of benefit fraud has been committed, but the fraud is discovered and stopped before any overpayment of Benefit is made, after 8 May 2012, the Council will offer a minimum penalty of £350 or 50% of the overpayment, whichever is greater (up to a maximum penalty of £2,000), as per the Welfare Reform Act 2012. The decision upon whether to offer an Administrative Penalty will be taken by the Fraud Investigations Manager.

The offer of a penalty should be made in a special interview, and the offender should be told that it is not an interview under caution, acceptance of the penalty is not a declaration of guilt, the recovery of the penalty will occur in the same way as the recovery of the overpayment, he/she has 28 days, or 14 days, where an offence has been committed wholly, or an attempt is made after 8 May 2012, in which to change their mind should they accept the penalty, but in the event of non-acceptance prosecution would be instituted

and failure to repay the debt or default on instalments will result in proceedings for recovery.

Regulations have been made under Section 14 of the Local Government Finance Act 1992 (as amended) in exercise of The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 to bring in the necessary powers, offences and penalties, to allow local authorities to investigate and tackle potential fraudulent Local Council Tax Support Scheme claims. These are similar to existing rules in relation to Council Tax Benefit which ended on 31 March 2013. The amount of penalty as alternative to prosecution (Administrative Penalty) is 50% of the amount of the excess reduction, subject to a minimum amount of £100 and a maximum amount of £1,000.

The Investigations Officer who conducts the original interview under caution will **not** normally undertake the administrative penalty interview.

Simple Cautions

The purpose of a Simple Caution is to deal quickly and simply with less serious offenders, to save unnecessary appearance in a criminal court and to reduce the chances of the re-offending.

A Simple Caution is a serious matter, which should be recorded and used in the future if a person should offend again. It may be cited in any subsequent court proceedings.

In order to safeguard the offender's interests, the following conditions must be met before a caution is administered, there must be evidence of the offender's guilt, sufficient to give realistic prospect of conviction, the offender must admit the offence and the offender must understand the significance of a caution and give informed consent to being cautioned.

A Simple Caution can only be issued if the claimant admits the offence. If the claimant denies the charge it cannot be issued, but a formal prosecution may then be considered. Any overpayment will be recoverable.

All Simple Cautions will be administered in accordance with the Police and Criminal Evidence Act.

Civil Penalties for Council Tax - (not including Benefit)

The Local Government Finance Act 1992 provides that a billing authority may impose civil penalties.

Civil Penalties can be imposed where a person fails to supply certain information regarding liability to a billing authority which the authority has requested, or knowingly supplies inaccurate information, and where a person fails without reasonable excuse, to notify a billing authority that an assumption, the authority has made as to exemption or discount is incorrect, or that relevant circumstances have changed.

The initial penalty is £70. In cases where there has been a second refusal for the same information, or a second provision of inaccurate information, this can lead to an additional penalty of £280. A further penalty of £280 may be imposed for each subsequent failure.

Corporate Fraud

Investigation of Frauds other than Housing Benefit, Council Tax Support, Council Tax and Business Rates fraud, are not part of this Fraud Strategy Document. Such incidents are covered in the Anti-Fraud and Anti-Corruption Strategy and investigations will be carried out by any members of the Audit and Fraud Team dependent on the nature of the issue raised.

REPORT TO CABINET

Open	Would any decisions proposed :			
Any especially affected Wards	(a) Be entirely within Cabinet’s powers to decide YES			
None	(b) Need to be recommendations to Council NO			
	(c) Be partly for recommendations to Council NO and partly within Cabinets powers –			
Lead Member: Nick Daubney E-mail:		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616432		Other Officers consulted: David Thomason, Management Team		
Financial Implications NO	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications NO

Date of meeting: 1 July 2014

ANNUAL TREASURY REPORT 2013/2014

<p>Summary</p> <p>The Council has formally adopted the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.</p> <p>The primary requirements of the Code include:</p> <ul style="list-style-type: none"> • Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities. • Receipt by Council of an annual strategy report (including the annual investment strategy report) for the year ahead, a mid year review report and an annual review report of the previous year.

This Annual Treasury Report looks backwards at 2013/2014 and covers:

- the Council's overall borrowing need
- the Council's treasury position/performance;
- the strategy for 2013/2014;
- the economy in 2013/2014;
- borrowing rates in 2013/2014;
- the borrowing outturn for 2013/2014;
- compliance with treasury limits and Prudential Indicators;
- investment rates for 2013/2014;
- investment outturn for 2013/2014;
- debt rescheduling;

During the year the Council maintained a cautious approach to investment and management of debt. Investments returned a percentage of 0.79% exceeding the 7 day LIBID benchmark rate of 0.35%. Interest on debt averaged 2.82% in 2013/2014.

Cabinet is asked to approve the amendment to the Treasury Management Strategy for 2014-2015, to extend the duration of investments placed with Nationalised and Part Nationalised institutions to 2 years.

Recommendations

1. Cabinet is asked to approve the actual 2013/2014 prudential and treasury indicators in this report, and to note the report.
2. Cabinet is asked to approve the amendment to the strategy for 2014/2015.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. Introduction and Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management requires that Council consider an Annual Treasury Report looking back at the previous year's performance.
- 1.2 This Annual Treasury Report covers:
 - a. the Council's overall borrowing need
 - b. the Council's treasury position/performance;
 - c. the strategy for 2013/2014;
 - d. the economy in 2013/2014;
 - e. borrowing rates in 2013/2014;
 - f. the borrowing outturn for 2013/2014;
 - g. compliance with treasury limits and Prudential Indicators;
 - h. investment rates 2013/2014;
 - i. investment outturn for 2013/2014;
 - j. debt rescheduling;

2. The Council's Overall Borrowing Need

- 2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2013/2014 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.
- 2.3 **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 2.4 The Council's 2013/2014 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2013/2014 on 5 March 2013.
- 2.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need.

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CFR	31 March 2013 Actual £000's	31 March 2014 Actual £000's
Opening Balance	12,887	13,555
Add unfinanced capital expenditure	1,463	2,634
Less MRP	230	338
Less Unsupported Borrowing	563	475
Less finance lease repayments	2	2
Closing CFR	13,555	15,374

- 2.6 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2013/2014 plus the expected changes to the CFR over 2014/15 and 2015/16. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/2014. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2013 Actual £million	31 March 2014 Actual £million
Borrowing	17.72	16.60
Investments	27.17	31.30
Net Position	(9.45)	(14.70)
Closing CFR	13.56	15.37

- 2.7 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2013/2014 the Council has maintained gross borrowing within its authorised limit.
- 2.8 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual

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position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

- 2.9 **Actual financing costs as a proportion of 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 (Council Tax and Government Grant).

	2013/2014
Authorised limit	£30m
Maximum gross borrowing position	£18.4m
Operational boundary	£20m
Average gross borrowing position	£14.4m
Financing costs as a proportion of net revenue stream	2.52%

3. Treasury Position/Performance as at 31 March 2014

- 3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/2014 the Council's treasury position was as detailed in the table below:

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	31st March 2013 Principal £ million	Total £ million	Rate/ Return %	31st March 2014 Principal £ million	Total £ million	Rate/ Return %
Borrowing:						
Fixed Rate Funding:						
- PWLB	1.30		2.92	1.10		2.92
- Market	<u>10.00</u>	11.30	3.81	<u>12.50</u>	13.60	3.81
Variable Rate Funding:						
- PWLB	0.00			0.00		
- Market	<u>6.42</u>	<u>6.42</u>	<u>0.31</u>	<u>3.00</u>	<u>3.00</u>	<u>0.31</u>
Total Debt		17.72	2.48		16.60	2.82
*Investments:						
- In-House	27.17		1.38	31.30		0.79
Total Investments		27.17	1.38		31.30	0.79
Net Position		(9.45)			(14.70)	

*see section 10.9 for explanation of movement, of investment balances

3.2 The maturity structure of the debt portfolio was as follows:

	31 March 2013 Actual £million	31 March 2014 Actual £million
Under 12 months (cash flow)	6.42	3.00
12 months and within 24 months	0.00	0.00
24 months and within 5 years	0.00	2.50
5 years and within 10 years	1.30	1.10
10 years and above	10.00	10.00
Total:	17.72	16.60

3.3 The maturity structure of the investment portfolio was as follows:

	31 March 2013 Actual £million	31 March 2014 Actual £million
Longer than 1 year	2.00	5.00
Under 1 year	25.17	26.30
Total:	27.17	31.30

3.4 As part of the Council strategy in 2013/2014, the Council would avoid locking into longer term deals while investment rates were down at historically low levels **unless** exceptionally attractive rates were available which would make longer term deals worthwhile.

3.5 The Council invested £3 million with Glasgow City Council until November 2015 at 0.95% and £2 million with West Cheshire & Chester Council until January 2016 at 1.10% to take advantage of Local Authority deals due to the reduced investment rates being offered by Natwest (where investments were previously placed). The investments were advantageous as money market rates at the end of March 2014 for 12 months were being offered at 0.50%, and rates were not expected to rise until quarter 3 of 2015. Our advisors, Capita Asset Services, were also consulted in regards to the investments.

4. The Strategy for 2013/2014

4.1 Capita Asset Services (Sector), the Council's treasury advisors, recommended a treasury strategy for 2013/2014, based on their view that the expectation for interest rates anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

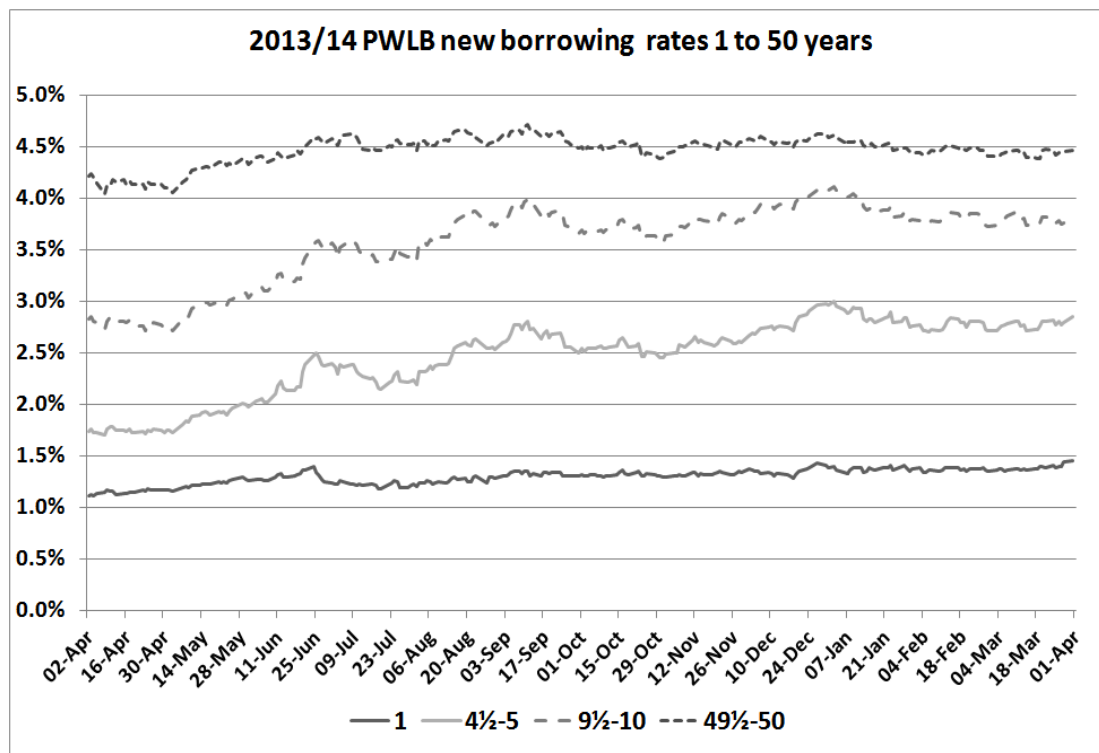
4.32 The actual movement in gilt yields meant that Public Works Loans Board (PWLB) rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the Federated Bank (the Fed). This duly started in December 2013 and the Fed adopted a future course of monthly reductions of \$10bn (from a starting position of \$85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

5. The Economy 2013/2014

- 5.1 The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (Gross Domestic Product-GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While Consumer Price Index (CPI) inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.
- 5.2 Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/2014. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.
- 5.3 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-2019.
- 5.4 The European Union (EU) sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank (ECB) statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/2014 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

6 Borrowing Rates in 2013/2014 – (Rates based on PWLB maturity profiles)

- 6.1 **PWLB borrowing rates** - the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.



PWLB borrowing rates 2013/14 for 1 to 50 years									
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/13	1.120%	1.150%	1.350%	1.530%	1.750%	2.840%	4.080%	4.230%	1.470%
30/9/13	1.300%	1.420%	1.870%	2.190%	2.500%	3.660%	4.450%	4.480%	1.470%
High	1.450%	1.630%	2.230%	2.620%	2.970%	4.100%	4.670%	4.700%	1.480%
Low	1.110%	1.120%	1.250%	1.410%	1.610%	2.580%	3.780%	4.070%	1.450%
Average	1.305%	1.421%	1.853%	2.164%	2.469%	3.584%	4.427%	4.467%	1.466%
Spread	0.340%	0.510%	0.980%	1.210%	1.360%	1.520%	0.890%	0.630%	0.030%
High date	31/3/14	31/3/14	27/12/13	27/12/13	27/12/13	2/1/14	10/9/13	10/9/13	9/4/13
Low date	5/4/13	15/4/13	15/4/13	15/4/13	15/4/13	19/4/13	19/4/13	3/5/13	10/5/13

7 Borrowing Outturn for 2013/2014

7.1 The Council Strategy was based on the following views:

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*

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- *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) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.*
- *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.

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7.3 Borrowing as at 31st March 2014:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
17.02.14	18.08.14	3788	1,000,000	South Ayrshire Council	0.40%	Short Term
19.03.13	05.04.13	3786	2,000,000	Vale of Glamorgan	0.32%	Short Term
Total Short Term			3,000,000			
22.03.07	21.03.77	5888	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term – fixed for initial 10 year period, and option to change every 5 years thereafter
12.04.07	11.04.77	5887	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term - fixed for initial 10 year period, and option to change every 5 years thereafter
15.09.09	14.09.19	495951	1,100,000	PWLB	2.92%	Long Term – fixed for 10 years
27.03.14	30.11.18	3789	2,500,000	Suffolk County Council (LEP)	1.80%	**see note below
Total Long Term			13,600,000			
Total Borrowing			16,600,000			

**A loan was taken out, on behalf of Norfolk and Waveney Enterprise Services Ltd (NWES), with Suffolk County Council for the Local Enterprise Partnership. A corresponding investment is shown in table 10.9 with NWES at the same rate of interest (only £500,000 has been drawn down in 2013/2014, a further £2,000,000 to follow in 2014/2015).

The table at 3.1 shows average rate of debt as being 2.82%.

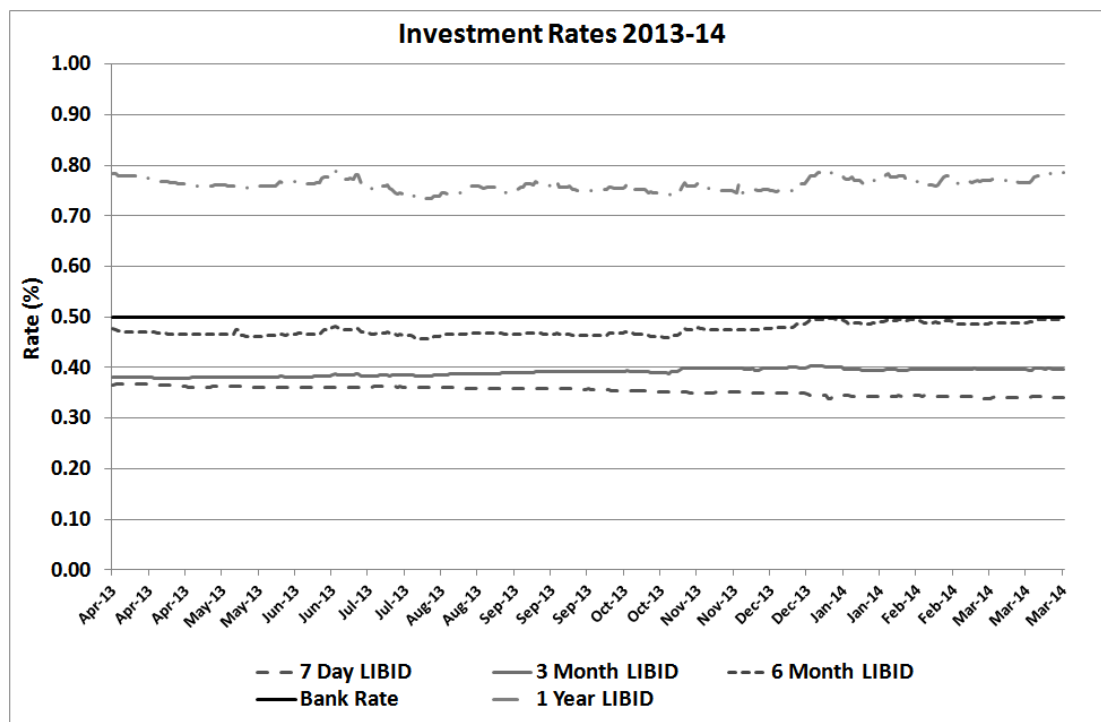
8. Compliance with Treasury Limits

8.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and

annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in appendix 1.

9. Investment Rates in 2013/2014

9.1 Bank Rate remained at its historic low of 0.50% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up almost unchanged at around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



10. Investment Outturn for 2013/2014

10.1 **Internally Managed Investments** - The Council manages its investments in-house and invests with the institutions listed in the Council’s approved lending list. The Council invests for a range of periods, dependent on the Council’s cash flows, its interest rate view and the interest rates on offer. During the year, all investments were made in full compliance with this Council’s treasury management policies and practices.

10.2 **Investment Strategy** - The expected short-term investment strategy for in-house managed funds was:

10.3 *In-house funds: The Council’s in-house managed funds are currently made up of both cash-flow derived and longer term investments. Investments will accordingly be made with reference to the core balance, cash flow requirements and the need to finance the capital programme. This means that both the outlook for short-term interest rates (i.e. rates for investments up to*

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12 months) and longer term interest rates (over one year) will be considered when making investments.

- 10.4 *Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 4 of 2014 and then to rise steadily from thereon. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.*
- 10.5 *The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.*
- 10.6 *For 2013/2014, it is suggested by the Councils advisors, that due to current market conditions, all investments should be made for periods less than 364 days, due to risk as detailed in the creditworthiness policy. The Council will continue to monitor creditworthiness on a daily basis.*
- 10.7 *For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.*
- 10.8 *Alternative options for investment will be considered during the year including a review of property investments as an alternative to "traditional" investments. These will be assessed in conjunction with Sector, our Treasury Management Advisors. Further reports will be brought to Cabinet if these types of investment are to be used.*
- 10.9 **Investments for 2013/2014** - Detailed below is the result of the investment strategy undertaken by the Council.

	Investments as at 1 April 2013 (£millions)	Investments as at 31 March 2014 (£millions)	Rate of Return (net of fees) %	Benchmark Return %
Investments	27.17	31.30	0.79	0.35

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Investments as at 31st March 2014:

Institution	Principal	Start Date	End Date	Rate %	Ratings
Barclays FIBCA**	2,400,000	12/11/2012		0.30	A
Barclays FIBCA**	2,600,000	20/12/2012		0.30	A
Natwest call account	3,000,000	14/02/2013		0.50	A
Natwest 95 day account	1,500,000	11/04/2013		0.60	A
Bank of Scotland	2,000,000	11/04/2013	11/04/2014	1.10	A
Natwest 95 day account	2,500,000	21/08/2013		0.60	A
Bank of Scotland	2,000,000	22/11/2013	01/12/2014	1.00	A
Bank of Scotland	3,000,000	26/11/2013	03/12/2014	1.00	A
Svenska Handelsbanken	800,000	05/02/2014		0.55	AA-
Goldman Sachs International Bank	2,000,000	20/03/2014	22/09/2014	0.69	A
Norfolk & Waveney Enterprise Services (LEP)***	500,000	27/03/2014	30/11/2018	1.80	AAA
Svenska Handelsbanken	2,000,000	27/03/2014		0.55	AA-
Roydon Parish Council	4,000	19/02/2013	01/04/2015	1.50	AAA
Wyre Forest District Council	2,000,000	14/01/2013	14/07/14	0.75	AAA
Glasgow City Council	3,000,000	12/11/13	12/11/15	0.95	AAA
Cheshire West & Chester Council	2,000,000	20/01/14	20/01/16	1.10	AAA
Total	31,304,000				

** Barclays FIBCA (Flexible Interest Bearing Current Account) deposits are in a current account which attracts an additional 0.40% bonus when the investments are held in the account for a year

***see also 7.3 borrowings from Suffolk County Council

10.10 The benchmark rate is derived from the 7 day LIBID (London Interbank Bid Rate) rate. The Council exceeded this rate, as investments were tied in for longer periods to take advantage of higher interest returns while the bank rate remained at 0.50%.

10.11 In addition, the Council utilised business reserve accounts which were providing higher returns from those available on the markets, due to problems with the worlds' financial markets. The Council targeted investments with banks which met their minimum criteria counterparty limits. If changes in ratings occurred to banks where funds were deposited, this was noted on Monthly Monitoring reports and reviewed.

10.12 The Council also ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

10.13 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

11.0 Debt Rescheduling

11.1 The Authority did not reschedule any debt during the year.

12.0 Amendment to Treasury Management Strategy 2014-2015

12.1 Due to Bank Rate remaining at a historic low of 0.50% (it has now remained unchanged for five years), local authorities are now looking for alternative ways of achieving better rates of return, while still maintaining security and not exposing themselves to risk.

12.2 In addition to this, the Royal Bank of Scotland (RBS/Natwest) are now fully funded and therefore have reduced their rates substantially on their call accounts with effect from June/July 2014. The Council had £7million invested with RBS as at 31 March 2014, which would mean if funds were still held in these accounts, the investment return would decrease along with the percentage return for the investment portfolio as a whole.

12.3 After consultation with the Council’s Treasury advisors, Capita Asset Services, by extending the duration with Nationalised and Part Nationalised institutions, the Council could maximise the returns and lock in investments for a 2 year period, whilst exposing themselves to less risk. Forecasts suggest that investment rates are unlikely to rise until December 2015. For example, if fund were held in RBS 95 day account, rate of return would be 0.40%, however, if these funds were placed on a 2 year deposit with RBS, at least 1% could be achieved – an increase in investment return of £42,000 per annum (this investment is based on 3 month libor rate, rising to 2% if libor increased during this period, therefore protecting the Council against unexpected rate rises).

12.4 The table below shows an extract taken from the Treasury Management Strategy and the new suggested durations for all institutions (amended item is in bold print changed from 1 to 2 years):

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

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Counterparties	Colour (and long term rating where applicable)	Time Limit
Banks	yellow	5yrs
Banks	purple	2 yrs
Banks	orange	1 yr
Banks – UK part nationalised	blue	2 yr
Banks	red	6 mths
Banks	green	100 days
Banks	No colour	
The Council's transactional bank (The Co-operative Bank)	No colour	1 day
Other institutions limit (i.e. Building Societies)	-	Dependent upon institution
DMADF (Debt Management Account Deposit Facility)	AAA	6 months
Local authorities	n/a	unlimited
Money market funds	AAA	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	liquid

12.5 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	£m	£m
With Local Authorities	10	10	10
With Part Nationalised and Nationalised Banks	10	10	10
Other institutions	2	2	2

12.6 Cabinet are asked to approve the amendment to the Treasury Management Strategy for 2014-2015, to extend the duration of investments placed with Nationalised and Part Nationalised institutions to 2 years.

13.0 Summary

13.1 In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties, which were proven to be disadvantageous.
- Undertook a lending list review to ensure security and liquidity were maintained.
- Took advantage of higher business reserve account rates on short term investments, and tied in rates for fixed term investments to take advantage of higher interest rate returns (while bank rate remained at 0.50%).
- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported on monthly monitoring reports if changes occurred to any banks where funds were deposited.
- Ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

13.2 Cabinet is asked to approve the amendment to the Treasury Management Strategy for 2014-2015, to extend the duration of investments placed with Nationalised and Part Nationalised institutions to 2 years.

APPENDIX 1: PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2012/2013	2013/2014
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	£'000	£'000
	Actual	Actual
Capital Expenditure	4,435	7,887
Ratio of financing costs to net revenue stream	1.34%	2.52%
Net borrowing requirement		
brought forward 1 April	17,620	17,720
carried forward 31 March	17,720	16,600
in year borrowing requirement	100	(1,120)
Net Investment		
brought forward 1 April	25,731	27,205
carried forward 31 March	27,205	31,335
in year investment	1,474	4,130

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PRUDENTIAL INDICATOR	2012/2013	2013/2014
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
	Actual	Final
Authorised limit for external debt -		
Borrowing	25,000	25,000
Operational boundary for external debt -		
Borrowing	20,000	20,000
Actual External Debt	17,720	16,600
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	20,000	20,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,000	20,000
Upper limit for total principal sums invested for over 364 days		
(per maturity date)	No limit	No limit

Maturity structure of fixed rate borrowing during 2013/2014	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2014/2015**29 April 2014**

- 5.30 pm: 1st Item - Fraud – (training/briefing session – all Members invited to attend):
- Single Fraud Investigation Service Update
- Cabinet Report: Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan

27 May 2014

- Q4 Progress Report.
- Fraud report – BEU and NFI
- Corporate Risk Monitoring Report (October 2013 to March 2014)

9 June 2014

- Final Accounts and Statement of Accounts for year ended 31 March 2013: Revenue Outturn, Capital Programme and Resources

24 June 2014**Cabinet Reports:**

- Benefits and Revenues Fraud Policy – Introduction of Civil Penalties for Council Tax.
- Annual Treasury Report 2013/2014.

22 July 2014

- Q1 Progress Report
- Annual Report
- Effectiveness Reviews
- Business Continuity

9 September 2014

- Special Meeting – to consider the Statement of Accounts 2012/2013
- Annual Governance Statement

25 November 2014

- Q2 Progress Report
- Fraud Report – BEU and NFI
- External Annual Audit Letter – to be presented by the Council's External Auditor
- Mid-Year Treasury Report

24 February 2015

- Q3 Progress Report
- Strategic Audit Plan

24 March 2015

Forthcoming Items

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