

# **AUDIT COMMITTEE**

**25<sup>TH</sup> MARCH 2013**

## **DIRECTORATE OF FINANCE & CORPORATE SERVICES**

### **REPORT OF THE DIRECTOR OF FINANCE & CORPORATE SERVICES - H JENKINS**

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**Doc. Code: AUD-250313-REP-FS**

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## **SECTION A – MATTERS FOR DECISION**

### **ITEM 1**

#### **INTERNAL AUDIT SERVICE – PROGRESS REPORT TO 28<sup>TH</sup> FEBRUARY 2013**

##### **1. Purpose of the report**

- 1.1 To provide details of the work undertaken for the period from the 1<sup>st</sup> December 2012 to the 28<sup>th</sup> February 2013 and an update on progress against the 2012/13 Internal Audit Plan.

##### **2. Background**

- 2.1 One of the terms of reference of this Committee is to ‘monitor internal (and external) audit performance’. In order to comply with this requirement to monitor the in-house service, a progress report is given below outlining internal audit work undertaken in the last three months. This work is then set against the original Internal Audit Plan to show what progress has been achieved against that plan.
- 2.2 In addition, information is provided for members on the current position regarding staffing issues within the section.

##### **3 Audit Assignments Completed**

- 3.1 A total of 22 formal audit reports have been issued since the 1<sup>st</sup> September in line with normal distribution guidelines.
- 3.2 The following is a summary list of the reports that have been issued:
- Eight Minibus Reports
  - Five Primary Schools
  - Five Special Investigations
  - One Secondary School
  - Hillside Secure Unit
  - Gnoll Country Park
  - Bus Service Operators’ Grant
- 3.3 Attached as Appendix 1 to this report is a full list of the reports along with a brief summary of their findings.

3.4 In addition to the above, Internal Audit continues to carry out post audit reviews (follow ups) on all the planned audits carried out.

3.5 There are no issues in terms of the post audit reviews that need to be brought to Members' attention.

#### **4 Progress against the Audit Plan**

4.1 Appendix 2 gives details of the work carried out to date against the 2012/13 audit plan.

4.2 There are currently two special investigations outstanding.

#### **5 Staffing**

5.1 There is one current vacancy to report which is that of the Chief Internal Auditor. A verbal update on the current position will be provided at the meeting.

#### **6 National Fraud Initiative (NFI)**

6.1 The current (12/13) exercise is underway, with the reports on data matches having been received from NFI in early February.

6.2 The data matching exercise has produced a total of 58 reports, covering 15 service areas. In total 10,223 matches have been provided in these reports, 3,532 of which are recommended by NFI for review.

6.3 Updates on progress will be provided in forthcoming Audit Committee meetings.

#### **7 Audit Plan 2013/14**

7.1 Also attached to this report is the annual Internal Audit plan for 2013/14 for Committee approval. As part of the process of compiling the plan a spreadsheet was sent to all Directors and Heads of Service which detailed suggestions for the plan along with a request for comments and any suggestions that they themselves may have. The replies received have been built into the final plan.

7.2 As with last year the risk factors included in the plan have been based on a formula using twelve different variables. This allows a more consistent approach to be taken to the assessment of risk for audit assignments.

**Appendices**

Appendix 1 – Published Reports

Appendix 2 – Monitoring Report

**List of Background Papers**

Audit Files

**Wards Affected**

Not Applicable

**Officer Contact**

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## Published Reports

Report Ref	Report Subject	Report Conclusion	Category
D1	School Minibus	Very good controls are in place at the school and only a small number of recommendations have been made.	2
D2	School Minibus	Some good controls were found to be in place but some recommendations need to be addressed as soon as possible.	2
D3	Groes Primary School	The school has good controls in place in some areas and the report makes recommendations to enhance the controls in a number of other areas including that of staff checks. The school is working on the implementation of the recommendations that were made.	3
D4	School Minibus	Good controls are in place at the school though some recommendations were required.	2
D5	School Minibus	Good controls are in place at the school though some recommendations were required.	2
D6	School Minibus	Some controls were in place though a number of recommendations were required.	2
D7	Glan Afan Secondary School	Generally good controls were in place in all areas tested. Some minor recommendations were required.	2
D8	Hillside Secure Unit	Once again consistently high standards, strong controls and well established procedures were found at the unit. A high level of assurance can be placed on the financial systems and controls in operation.	1
D9	School Minibus	Good controls are in place at the school though some recommendations were required.	2
D10	Special Investigation	This was an investigation into a complaint rather than an audit investigation.	1
D11	Special Investigation	This arose from an internal referral from a manager and resulted in disciplinary action being taken.	2

## Published Reports

Report Ref	Report Subject	Report Conclusion	Category
D12	Special Investigation	This arose from an internal referral and resulted in changes to working practices being recommended.	2
D13	Yg y Wern Primary School	The school has good controls in place in some areas and the report makes recommendations to enhance the controls in some other areas. The school is working on the implementation of the recommendations that were made.	2
D14	School Minibus	Good controls are in place at the school though some recommendations were required.	2
D15	School Minibus	Good controls are in place at the school though some recommendations were required.	2
D16	Gnoll Country Park	Good controls were found to be in place in some areas though a number of recommendations were required to enhance the controls in a number of other areas.	2
D17	Tywyn Primary School	The school has good controls in place in some areas and the report makes recommendations to enhance the controls in a number of other areas including that of staff checks. The school is working on the implementation of the recommendations that were made.	3
D18	Bus Service Operators' Grant	The grant was duly certified.	1
D19	Special Investigation	This arose from an internal referral and resulted in disciplinary action being recommended.	1
D20	Special Investigation	This arose from an internal referral and resulted in disciplinary action being recommended.	2
D21	Crymlyn Primary School	The school has good controls in place in a number of areas and the report makes a small number of recommendations to enhance the controls in some other areas. The school is working on the implementation of the recommendations that were made.	2

## Published Reports

D22	Brynhyfryd Primary School	The school has good controls in place in some areas and the report makes recommendations to enhance the controls in some other areas. The school is working on the implementation of the recommendations that were made.	2
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**Key:**

**Category 1** – Service risk assessed as low.

**Category 2** – Service risk will be assessed as low when the recommendations are implemented.

**Category 3** – There are significant risks that Audit Committee needs to be aware of.

**Category 4** – Immediate action is required to reduce the level of risk.

## Audit Plan Monitoring 2012 / 2013

<b>Audit Plan Item</b>	<b>Risk Factor</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
<b>Education, Leisure and Lifelong Learning</b>					
<b>School Based Audits</b>					
Twenty Primary Schools	M	Three reports issued.	Six Reports Issued in the year to date.	Nine reports issued in the year to date.	Fifteen reports issued in the year to date.
Three Secondary Schools	H	Planned change to two schools plus minibus audit due to the number of schools with a minibus.		One school audit completed, draft report prepared.	One school audit completed and report issued.
<b>Other Education</b>					
Student Finance	M			Work in progress.	Work completed, draft report prepared.
Milland Road Training Agency	L				
Prince's Trust	M				



## Audit Plan Monitoring 2012 / 2013

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Leisure, Culture and Lifelong Learning</b>					
Youth Clubs	M				
Field Studies Centre	L	To be replaced by minibus audit.		Work in progress	Work completed, no report required.
School minibuses	H	Scope and programme agreed. Work to start at end of quarter 2	First minibus audit completed and report issued.	Fifteen reports issued in the year to date.	Twenty two reports issued in the year to date.
<b>Finance and Corporate Services</b>					
<b>Revenue Collection</b>					
Council Tax	H	Periodic checks being carried out	Periodic checks being carried out	Periodic checks being carried out.	Annual audit in progress.
NNDR	M		Periodic checks being carried out	Periodic checks being carried out.	Annual audit completed, draft report prepared.
Debtors	H		Periodic checks due to begin.	Scoping work completed.	Annual audit in progress.
Cash Collection	H	Spot checks being carried out.	Spot checks being carried out.	Spot checks being carried out.	Spot checks being carried out.
<b>Benefits Administration</b>					
Benefits	M		Periodic checks being carried out	Periodic checks being carried out.	Annual audit in progress.
Prosecution Panel	N/A	On-going	On-going	On-going.	On-going.

## Audit Plan Monitoring 2012 / 2013

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Exchequer</b>					
Payroll	M		Periodic checks due to begin.	Periodic checks being carried out. One report issued.	Annual audit in progress.
Creditors	H	Work on cut-off procedures has been completed.	Periodic checks being carried out	Periodic checks being carried out.	Annual audit in progress.
Travel Expenses	M		Periodic checks being carried out	Periodic checks being carried out. One report issued.	Periodic checks being carried out.
<b>Accountancy</b>					
Treasury Management	H		Periodic checks due to begin.	Work in progress.	Annual audit in progress.
Bank Reconciliation	M				
Grants	H				
Trust Funds	M			Work in progress.	Work completed, no report required.
Main Accounting	M				Annual audit in progress.
<b>Legal Services</b>					
None					

## Audit Plan Monitoring 2012 / 2013

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Chief Executive's</b>					
System Reviews	M	To be replaced by Risk Register audit.	See Quarter 1	See Quarter 1	See Quarter 1.
Working Time Validation	M	Scope prepared.	Work in progress	Work in progress.	Work completed, draft report being prepared.
Risk Register	M	Work in progress.	Draft report being prepared	Work completed report issued.	See Quarter 3.
<b>Social Services, Health and Housing</b>					
<b>Housing</b>					
Property Bay Wales	H	Preliminary work in progress.	Work in progress	Work in progress.	Work in progress.
<b>Social Services</b>					
External Care Providers	H				
Hillside Secure unit	M			Work in progress	Work completed, report issued.
Establishment Audits	M	On-going, two reports issued to date.	Five reports issued to date	Work completed, five reports issued.	See Quarter 3.
Home Care Finance To Be Agreed	M N/A	Work in progress	Work completed	See Quarter 2	See Quarter 2.

## Audit Plan Monitoring 2012 / 2013

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Environment</b>					
Carbon Reduction Scheme	H	Work due to start in July	Awaiting Environment Directorate	Work in progress.	Work completed, draft report being prepared.
Stores	M		Periodic checks due to begin.	Periodic checks started.	Periodic checks on-going.
Convergence Funding	H			Now to be carried out by WAO.	See Quarter 3.
Fuel Usage of Vehicles	M			Audit scope prepared.	Carried over to 2013/14.
Cash - Pay and Display	M	Scope prepared.	Work in progress	Work completed report issued.	See Quarter 3.
<b>Cross Directorate</b>					
Special Investigations	N/A	Currently five investigations on-going	Two reports issued, seven investigations outstanding.	Nineteen investigations have been or are being carried out. Six reports have been issued, seven have resulted in no report being required and six are currently on-going.	Twenty three investigations have been or are being carried out. Twelve reports have been issued, nine have resulted in no report being required and two are currently on-going.
Advice and Guidance	N/A	On-going	On-going	On-going.	On-going.

## Audit Plan Monitoring 2012 / 2013

<b>Audit Plan Item</b>	<b>Risk Factor</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
IT - Asset Management	N/A				
IT - Wireless Network	N/A				
IT - Mobile Telephones	N/A		Work in progress.	Work completed report issued.	See Quarter 3.
Contract Audit	N/A	On-going	Work in progress.	Work on-going.	Work on-going.
Corporate Governance	N/A	Annual Governance Statement Produced.	See Quarter 1	See Quarter 1	See Quarter 1.
Bribery Act	N/A				
Officer Declarations	M		Periodic checks being carried out.	Periodic checks carried out report issued.	Further periodic checks being carried out.
FOI Act	M				
Petty Cash	M		Quarterly checks being carried out. One report issued.	See Quarter 2	Further Regular checks being carried out.
CRB Checks	M		Work in progress.	Work on-going.	Further Regular checks being carried out.

## Audit Plan Monitoring 2012 / 2013

<b>Audit Plan Item</b>	<b>Risk Factor</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
<b>Other Commitments</b>					
Working Parties	N/A	On-going	On-going	On-going.	On-going.
Audit Committee	N/A		On-going	On-going.	On-going.
FOI Requests	N/A			Two requests have been received.	See Quarter 3.
Accounting Instructions	N/A		Work in progress.	Work on-going.	Initial work completed and report issued.
Contingencies	N/A	One grant claim has been audited and report issued.	See Quarter 1	See Quarter 1 plus periodic checks have been carried out on procurement card usage.	See Quarter 3.
WGBWA	N/A			Work completed report issued.	See Quarter 3.
WPI's	L	Work in progress	Work completed and report issued.	See Quarter 2	See Quarter 2.

## **ITEM 2**

### **INTERNAL AUDIT PLAN FOR THE PERIOD 1<sup>ST</sup> APRIL 2013 TO 31<sup>ST</sup> MARCH 2014**

#### **1. Purpose of Report**

- 1.1 The purpose of this report is to agree the Internal Audit Plan for 2013/14.

#### **2. Audit Plan 2013/14**

- 2.1 The report has been prepared following consultation with Directors and Heads of Service. The items included in the plan are a combination of audits that are carried out annually, audits that are the subject of service level agreements and some that have been requested by service managers, Heads of Service and Directors. There are also some audits that have arisen from findings of previous audit work.
- 2.2 In addition to the specific audits there are allowances put in for such items as special investigations that arise during the year, contingencies and for advice and guidance. The plan has to be flexible in order to allow for unexpected items during the year that require audit input.

#### **3 Recommendation**

- 3.1 It is recommended that Members approve the Internal Audit Plan as set out in Appendix 1.

**Neath Port Talbot County Borough Council**  
**Cyngor Bwrdeistref Sirol Castell-nedd Port Talbot**

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Finance & Corporate Services Directorate

Internal Audit Service

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**INTERNAL AUDIT PLAN  
FOR THE PERIOD  
1<sup>st</sup> APRIL 2013  
To  
31<sup>st</sup> MARCH 2014**

**ISSUE DATE: MARCH 2013**



**NEATH PORT TALBOT COUNTY BOROUGH COUNCIL**  
**FINANCE & CORPORATE SERVICES DIRECTORATE**  
**INTERNAL AUDIT SERVICE**

**AUDIT PLAN 2013/14**

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## **INTERNAL AUDIT SERVICE**

### **STRATEGIC AUDIT PLAN IN RESPECT OF THE PERIOD 1<sup>st</sup> APRIL 2013 TO 31<sup>st</sup> MARCH 2014**

#### **FOREWORD TO PLAN**

#### **1. INTRODUCTION**

- 1.1 I outline in this plan details of Internal Audit Service involvement in Council services/functions for the period commencing 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014.
- 1.2 The plan has been prepared using the following assumptions and methodology.
- 1.3 A staffing complement of 9.00 (FTE) has been used, which is the same as last year.
- 1.4 An allowance has been made for special investigation type work i.e. fraud, theft, general malpractice issues – in relation to employees and clients of Council services, along with requests for advice and guidance from service managers.
- 1.5 The risk factors noted against each audit heading have been updated from previous years and are now based on a formula that calculates the scores using twelve different variables. The scores against each variable are provided by Internal Audit staff based on their experience on each of the audit areas.
- 1.6 Other items of note included within the plan are:
  - Ongoing review of Corporate Governance issues.
  - Audit duties associated with performance management arrangements.

- An increase in the total available days to 1,365 from 1,265 in 2012/13. This reflects the expectation that the section will be fully staffed for most of the year.

1.7 The plan details the areas that have to be audited during 2013/14 with some time allocated to contingencies and general advice and guidance. This is to enable Internal Audit to provide more flexible monitoring and support to the various directorates during the year. Any changes to the plan will be reported to Audit Committee throughout the year.

## **2 INTERNAL AUDIT SERVICE PERFORMANCE MONITORING**

Updates, in line with corporate guidelines, will continue to be given to the Council's Audit Committee and where required the relevant Scrutiny Committee. Information will also be outlined on our performance indicator results and targets.

## **3. AUDIT COMMITTEE**

Since this Committee was established as a 'stand alone' entity in May 2002, numerous reports on a variety of topics have been submitted and this has assisted in improving Members' awareness of their role, i.e. effective compliance with the laid down Terms of Reference of the Committee.

The Committee broadly undertakes its duties in line with the guidance given in the Code of Practice for Internal Audit in Local Government in the UK. This Code was formally adopted by the Audit Committee on 21<sup>st</sup> January 2004 as the basis for an "adequate and effective system of internal audit" within the Authority. At this meeting the aim and objectives of the Service were approved together with the linkage to the Authority's Corporate Aims and Values. Also approved was a high level strategy advocated by the code.

The make up and operation of the Committee also falls in line with the requirements of the Local Government (Wales) Measure 2011.

**4. THE YEAR AHEAD**

As for every year to date, a number of challenges lie ahead:

- Adopt a strategy for the replacement of the Chief Internal Auditor.
- Provide assurance to members on systems and processes that will have gone through major change as a result of systems reviews and other proposals of the transformation agenda.
- Provide assurance to members on the adequacy and effectiveness of internal controls on systems that have been affected by organisational changes within the Authority.
- The requirement to further improve the assessment of risk in audit work.
- Continuing with the progress made to date in improving and enhancing the role of the Audit Committee.
- Continuing to Work closely with service managers to improve the effectiveness of audit work, particularly with regard to the increasing emphasis on corporate governance issues.
- Continuing to work closely with the Wales Audit Office to maximise the effectiveness of audit work for the Authority.

In terms of ongoing requirements, there is need to constantly monitor and review the progress being made in connection with the various assignments contained within the Audit Plan (aided by a computerised Audit Management System which has been developed in-house for our purposes). The three monthly progress reports will continue to be presented to the Audit Committee. In addition, our External Auditors report on the performance of Internal Audit – in terms of compliance with the Code – on an annual basis in line with their statutory responsibility and this report in its entirety is submitted to the Audit Committee.

Finally, this Internal Audit Plan is submitted to the Audit Committee for approval at its next meeting scheduled for the 25<sup>th</sup> March 2013.

**H.J. JENKINS**  
DIRECTOR OF FINANCE  
& CORPORATE SERVICES

**D. REES**  
HEAD OF FINANCIAL SERVICES



## SECTION 1

### LEGISLATIVE REQUIREMENTS RELATING TO THE PROVISION OF THE INTERNAL AUDIT FUNCTION

- 1.1. This section deals with the legislative question and the manner in which compliance is effected by the Authority.
- 1.2. Section 151 of the Local Government Act 1972 requires that "every local authority shall make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs".
- 1.3. The responsible financial officer in this Authority is the Director of Finance & Corporate Services, and one of the more important ways in which he exercises his statutory responsibility for financial administration is through the work of the Internal Audit Service.
- 1.4. The Accounts and Audit Regulations state.... "A Local Government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall; if the body requires:-
  - a) Make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
  - b) Supply the body with such information and explanation as that body considers necessary for that purpose." This duty has been devolved to the Director of Finance & Corporate Services in his role as the 'responsible financial officer'. The Council has also formally confirmed its compliance with the 1991 "Guidance for Internal Auditors" Guideline published by the Auditing Practices Board - this being an integral component in complying with the Regulation outlined above. **In this connection, the role, duties and responsibilities of the Internal Audit Service was reaffirmed at a Strategic Resources Board meeting held on 25<sup>th</sup> January 2001. (Prior to this date the role etc. was agreed at a Finance Committee meeting held on 10th July 1996). At this**

**meeting, the then new Code of Practice (subsequently revised and updated) for Internal Audit in Local Government in the United Kingdom was formally adopted as a basis for an adequate and effective system of internal audit within the Authority. A report on this issue was submitted to the Audit Committee in January 2004 together with the statement of the aims and objectives of the Internal Audit Service, the linkage with the Council's Corporate Aims and Objectives and an overall Strategy Statement for the Service as advocated by the Code of Practice.**

- 1.5. These Accounts and Audit Regulations are supplemented by this Authority's Financial Regulation No. 3.4.5 and Financial Procedures Nos. 4.9.8 and 4.9.9 which state as follows:

### **Financial Regulation 3.4.5 – Audit Requirements**

This states that the Accounts and Audit Regulations require every local authority to maintain an adequate and effective internal audit.

### Financial Procedures Nos. 4.9.8 & 4.9.9

#### 4.9.8 Responsibilities of the Director of Finance & Corporate Services

- To ensure that internal auditors have the authority to:
  - (a) access Authority premises at reasonable times
  - (b) access all assets, records, documents, correspondence and control systems
  - (c) receive any information and explanation considered necessary concerning any matter under consideration
  - (d) require any employee of the Authority to account for cash, stores or any other Authority asset under his or her control
  - (e) access records belonging to third parties, such as contractors, when required
  - (f) directly access the head of paid service, the executive and Audit Committee.
- To ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.

**4.9.9 Responsibilities of Corporate Directors (Chief Officers)**

- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- To notify the Director of Finance & Corporate Services immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Authority's property or resources. Pending investigation and reporting, the Corporate Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.



## **SECTION 2**

### **INTERNAL AUDIT PLAN 2013/14 CALCULATION OF AVAILABLE DAYS**

- 2.1. The total number of days included in the Plan is based on a total of 9.00 (FTE) staff.
- 2.2. A number of allowances have to be made to the total number of days available to allow for annual leave, public holidays, sickness, training etc. An estimate also has to be made for staff vacancies arising from the possibility of staff turnover occurring during the year.
- 2.3. These allowances result in a total number of 'available' days to the Section of 1,635. From this is deducted a number of days to allow for the general supervision and management of the Section and other 'non-chargeable' items such as attendance at seminars, team meetings etc. The total number allocated to these overhead type areas is 270 days.
- 2.4. This leaves a total of 1,365 days available for planned work. This is an increase from the previous year's figure of 1,265 days and reflects the fact that at the start of the year the section should be fully staffed, with another once included for vacancies throughout the year.





## **SECTION 3**

### **INTERNAL AUDIT ANNUAL PLAN 2012/13**

<b>Service Area</b>	<b>Days Allocated</b>	<b>Risk Factor*</b>
<b>Education, Leisure &amp; Lifelong Learning</b>		
<u>School Based Audits:</u>		
Primary Schools	120	M
Secondary Schools	35	H
<u>Other Education:</u>		
Delegated School Reserves	25	M
<u>Leisure, Culture &amp; Lifelong Learning:</u>		
Margam Park	35	M
	<b>215</b>	

#### **Notes:**

\* H=High; M=Medium; L=Low; Not applicable

## SCHEDULE 1 of APPENDIX 1

Service Area	Days Allocated	Risk Factor*
<b>Finance &amp; Corporate Services</b>		
<u>Revenue Collection:</u>		
Council Tax	25	H
NNDR	15	M
Sundry Debtors	25	H
Cash Collection	5	H
<u>Benefits Administration:</u>		
Housing Benefits	25	H
Attendance at Prosecution Panel	20	N/A
<u>Exchequer:</u>		
Payroll	25	M
Creditor Payments	25	H
Travel & Subsistence Allowances	5	M
<u>Accountancy:</u>		
Treasury Management	20	H
Bank Reconciliation	5	M
Insurance	15	M
<u>Legal Services:</u>		
None		
	<b>210</b>	
<b>Chief Executive's</b>		
Members' Declarations of Interest	15	M
Urgency Action Procedures	10	L
	<b>25</b>	

### Notes:

\* H=High; M=Medium; L=Low; Not Applicable

## SCHEDULE 1 of APPENDIX 1

Service Area	Days Allocated	Risk Factor*
<b>Social Services, Health &amp; Housing</b>		
<u>Housing General Fund:</u> Housing Renewal Area	20	M
<u>Social Services:</u> Monitoring of External Care Providers	20	H
Hillside Secure Unit	15	M
Direct/Indirect Payments	20	M
Childrens' Services	45	H
	<b>120</b>	
<b>Environment</b>		
Building Maintenance	25	M
Stores/Equipment	20	M
Planning/Building Regulations	25	M
Fuel Usage of Vehicles	20	M
Cemeteries	10	M
	<b>100</b>	

**Notes:**

\* H=High; M=Medium; L=Low; N/A=Not applicable

## SCHEDULE 1 of APPENDIX 1

Service Area	Days Allocated	Risk Factor*
<b>Cross Directorate</b>		
Special Investigations	200	N/A
Advice and Guidance and Requests	90	N/A
I.T. Audit (1)	60	N/A
Contract Audit(2)	80	N/A
Corporate Governance Arrangements	25	N/A
Bribery Act	15	N/A
Officer Declarations	10	M
Freedom of Information Act	10	M
Petty Cash	10	M
CRB Checks	10	M
VFM Work	40	N/A
Annual Governance Statement	5	N/A
Banking System Administrator	10	N/A
	<b>565</b>	
<b>Other Commitments:</b>		
Attendance at Working Parties	15	N/A
Servicing/Attendance at Audit Committee	20	N/A
FOI Requests	5	N/A
Review of Accounting Instructions	5	N/A
Contingencies	40	N/A
West Glamorgan Blind Welfare Association	10	N/A
WPI Work inc. Performance Indicators	25	L
SWTRA	10	N/A
	<b>130</b>	
<b>Total Days Available 2013/14</b>	<b>1365</b>	

### Notes:

\* H=High; M=Medium; L=Low; N/A=Not applicable

(1) The audits are:

- Asset Management – 20 Days
- Wireless Network – 20 Days
- To be determined – 20 Days

(2) Includes work on Procure 2 Pay

## **SECTION B – MATTERS FOR INFORMATION**

### **ITEM 3**

#### **Statement of Accounts – Planned Work Programme**

##### **1. Purpose of the report**

- 1.1 The last Audit Committee received an update on the work taken to introduce improvements to the final accounts preparation process.
- 1.2 This report outlines the work undertaken since December to take forward these improvements and identifies the date when Audit Committee members should receive the draft Statement of Accounts

##### **2. Progress**

- 2.1 The Council has received the CIPFA Code of Practice on Local Authority Accounting, which identifies the key accounting requirements required for inclusion in the annual Statement of Accounts.
- 2.2 A full review of this document and its guidance notes has been undertaken and updates provided to all accountants to advise them of the changes to be incorporated in their closing process.
- 2.3 A detailed timetable has been discussed with and embraced by accountants before being circulated to managers and accountants throughout the Council, together with guidance notes on the issues to be considered by all managers with budget responsibilities.
- 2.4 In addition, regular meetings are being held with Wales Audit Office to ensure that any further updates identified across the country are included in the Council's Accounts. The information provided highlights potential issues to be addressed such as the operation of Landfill Sites, the Local Authority Mortgage Scheme and the reporting of Joint Working arrangements. Again, accountants have been advised of any issues that they will need to consider whilst undertaking their closing work.
- 2.5 Finally, the draft structure of the Statement of Accounts has been prepared and training provided to team members to ensure an understanding of the system required to ensure automatic update of information throughout the Statement.

### **3. Next Steps**

- 3.1 The closure process is progressing with regular reviews of the agreed timetable being undertaken. It is our aim to publish the draft Statement of Accounts at an earlier stage than in previous years, with the plan identifying that the Statement of Accounts should be signed off by the Director of Finance and Corporate Services on the 21<sup>st</sup> June for issue to the Audit Committee in advance of their meeting on the 27<sup>th</sup> June. These deadlines are of course very dependent on a wide range of staff achieving their closing deadlines and every effort will be made to monitor progress and support the completion of tasks.

### **Background Papers**

Closing working papers 2012/13

### **Wards Affected**

All

### **Officer Contact**

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## **SECTION C – MATTERS FOR MONITORING**

### **ITEM 4**

#### **2012/13 TREASURY MANAGEMENT MONITORING AND 2013/14 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY**

##### **1. Purpose of Report**

This report sets out treasury management action and information since the previous report in relation to the monitoring of 2012/13 Treasury Management Activity. This report also includes details of the 2013/14 Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy.

##### **2. Background**

Sections 3 to 6 of this report set out the Treasury Management monitoring arrangements which are administered by the Policy and Resources Cabinet Board and Scrutiny Committee. Under the scheme of delegation, this information is also forwarded to the Audit Committee for review.

Section 7 of the report details the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2013/14. The overall Strategy has been approved by Council on the 27<sup>th</sup> February 2013 and is again being forwarded to Audit Committee for review and monitoring under the approved scheme of delegation

##### **3. Rates of Interest**

Bank base rates continue to be at an all time low of 0.5% (since 5<sup>th</sup> March 2009) and detailed below are the changes in the bank base rate since April 2008.

<b>Effective Date</b>	<b>Bank Rate</b>
10 April 2008	5.00%
08 October 2008	4.50%
06 November 2008	3.50%
04 December 2008	2.00%
08 January 2009	1.50%
05 February 2009	1.00%
05 March 2009 to date	0.50%

The following table provides examples of external borrowing costs as provided by the Public Works Loans Board as at 20<sup>th</sup> February 2013.

	<b>Equal Instalments of Principal</b>		<b>Annuity</b>		<b>Maturity</b>	
	<b>Previous 08 Jan 13</b>	<b>Current 20 Feb 13</b>	<b>Previous 08 Jan 13</b>	<b>Current 20 Feb 13</b>	<b>Previous 08 Jan 13</b>	<b>Current 20 Feb 13</b>
	%	%	%	%	%	%
5-5.5 years	1.64	1.55	1.64	1.56	2.20	2.23
10-10.5years	2.20	2.23	2.22	2.27	3.16	3.36
20-20.5years	3.16	3.36	3.27	3.49	4.04	4.26
35-35.5years	3.90	4.12	4.07	4.30	4.39	4.58
49.5-50years	4.23	4.43	4.36	4.56	4.37	4.57

#### 4. General Fund Treasury Management Budget

The following table sets out the treasury management budget for 2012/13 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income. The budget reduction between the original and revised budgets has been reported to Members previously.

	<b>2012/13 Original Budget £'000</b>	<b>2012/13 Revised Budget £'000</b>
<b>Debt Charges</b>	17,037	16,791
<b>Investment Income</b>		
- Total	-780	-1,040
- less allocated to other funds	170	200
- General Fund (net)	-610	-840
<b>Net General Fund</b>	<b>16,427</b>	<b>15,951</b>

NB: Other funds include Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.



## 5. Borrowing

There has been no further borrowing since the last report.

## 6. Investment Income

In line with the Council's Investment Strategy, the 2012/13 Revised Budget for investment income is £1.040m and income generated to date totals £0.975m. Members should note that all investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including HSBC, Barclays, Lloyds Group, Bank Santander, Clydesdale, and RBS. The Council also has two investments with Lancashire County Council.

Since the last report, a thirteenth dividend of £248k has been received from the administrators of Heritable Bank Plc.

Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks:

**Table 1 – Original Investments**

<b>Bank</b>	<b>Original Investment</b>	<b>Amount of Principal Repaid</b>	<b>Current Outstanding Investment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Glitnir	2,000	2,000	0
Heritable	9,000	7,066	1,934
KSF	3,000	2,346	654
Landsbanki Islands HF	6,000	2,995	3,005
	<b>20,000</b>	<b>14,407</b>	<b>5,593</b>

In addition to the amounts listed above, an additional £50k was received in relation to the Glitnir Bank settlement. This £50k was in respect of interest due on the original investment.

**Table 2 – Investments Held in Escrow Accounts – Icelandic Kroner**

<b>Bank</b>	<b>Investment (Sterling Equivalent) £'000</b>	<b>Amount Repaid £'000</b>	<b>Outstanding Investment £'000</b>
New Glitnir	387	0	387
New Landsbanki	47	0	47
	<b>434</b>	<b>0</b>	<b>434</b>

Some of the investments matured by the old Glitnir and Landsbanki banks have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new banks are held in Escrow Accounts in the name of the local authority and generating interest in excess of 3%.

**7. 2013/14 Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy**

Members should note that the above strategies were submitted and approved by Cabinet and Council as part of the budget setting process at the end of February 2013. As part of the approved scheme of delegation they are required to be forwarded to the Audit Committee for review and monitoring. Full details of the above strategies and policy are included at Appendix 1 of this report.

Further monitoring reports will be forwarded to Audit Committee and Policy and Resources Scrutiny and Cabinet Boards during 2013/14 as part of the ongoing monitoring requirements.

**List of Background Papers**

Treasury Management Files

PWLB Notice Number

**Appendix**

Appendix 1 – Cabinet Report – 2013/14 Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy

**Wards Affected**

All

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## **Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2013/14**

### **1. Purpose**

This appendix sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2013/14.

Treasury Management is defined as:

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

### **2. Introduction**

- 2.1 All local authorities are required under the Local Government Act 2003 and Supporting Regulations to ensure that they prepare a Treasury Management Strategy, an Annual Investment Strategy and have a Minimum Revenue Provision Policy in place for each financial year. The Authority must also have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. A revised Code of Practice on Treasury Management (2009) was introduced by CIPFA which had effect from 1<sup>st</sup> April 2010. This code was adopted by the Authority in the Council meeting of 3<sup>rd</sup> March 2010. The main proposals of the code are outlined in Addendum 1. An updated version of the Code for 2011 has also been received and will be adopted as part of this report.

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

## 2.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the relevant Committee shown in the Table in section 2.3 below.

### **Prudential and Treasury Indicators and Treasury Strategy (this report)**

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

This report also updates some of the Council's Treasury Management Practices Statements which govern how the Council undertakes its Treasury Management Operations.

### **A Mid Year Treasury Management Report (prepared after 1<sup>st</sup> October)**

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.

### **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. This report must be considered by Members by 30<sup>th</sup> September of the following financial year.

## 2.3 Compliance with the Revised Code

The Council has adopted the following four clauses in order to comply with the requirements of the Revised Code:

1. The Council will create and maintain for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in any material deviation from the Code's key principles.

2. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a mid-year Review Report and an Annual Report (Stewardship report) covering activities during the previous financial year, in the form prescribed in its TMPs (see Scheme of Delegation on next page for further information).
3. The Council delegates responsibility for the implementation of treasury management policies to Cabinet, regular monitoring of its treasury management policies and practices to Policy and Resources Scrutiny and Cabinet Board/Audit Committee and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services (S151), who will act in accordance with the Council's policy statement and TMPs.
4. This Council nominates the Policy and Resources Scrutiny and Cabinet Board/Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code. The aim of these reporting arrangements will ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

### Scheme of Delegation

Area of Responsibility	Council/ Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Policy and Resources Cabinet Board	Annually by 30 <sup>th</sup> September after the end of the year
Treasury Management Monitoring and Performance Reports	Policy and Resources Cabinet Board and Scrutiny and Audit Committee	6 Weekly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Annually
Scrutiny of Treasury Management Strategy	Policy and Resources Scrutiny and Audit Committee	Annually

### 2.3 Treasury Management Strategy for 2013/14

The strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the Council's treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

## **2.4 Balanced Budget Requirement**

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

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

## **3. Treasury Limits for 2013/14 to 2015/16**

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



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

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Addendum 2 of this report.

#### 4. Current Portfolio Position

The Council’s treasury portfolio position at 31<sup>st</sup> March 2012 comprised:

<b>Table 1</b>	<b>Principal</b>		<b>Ave Rate</b>
		<b>£m</b>	<b>%</b>
Fixed rate funding	PWLB	111.30	5.47
	Market	62.50	3.93
		<u>173.80</u>	
Variable rate funding	PWLB		
	Market	<u>          </u>	
Other long term liabilities			
<b>Gross Debt</b>		<b><u>173.80</u></b>	<b>4.92</b>
<b>Total investments</b>		<b>90.50</b>	<b>1.68</b>
<b>Net Debt</b>		<b><u>83.30</u></b>	

#### 5. Borrowing Requirement

The borrowing requirement reflects the Council’s underlying requirement to fund capital expenditure and service loan debt. The requirement will be financed from external sources or internally through cash reserves or a combination of both. The Council’s borrowing requirement is as follows:

<b>Table 2</b>	<b>2012/13</b>				
	<b>2011/12</b>	<b>Revised</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
Borrowing requirement	8,789	10,555	16,369	20,322	18,112

## 6. Prudential and Treasury Indicators for 2013/14 – 2015/16

Prudential and Treasury Indicators (as set out in Addendum 2 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

Council adopted the original 2001 Code on 21st March 2002 and the Revised Code was adopted by Council on 3<sup>rd</sup> March 2010 and updated at the Annual Budget setting meeting.

## 7. Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view on interest rates.

<b>Annual Average %</b>	<b>Bank Rate</b>
Dec 2012	0.50
March 2013	0.50
June 2013	0.50
Sept 2013	0.50
Dec 2013	0.50
March 2014	0.50
June 2014	0.50
Sept 2014	0.50
Dec 2014	0.50
March 2015	0.75
June 2015	1.00
Sept 2015	1.25
Dec 2015	1.50
March 2016	1.75

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

## **8. Borrowing Strategy**

### **8.1 Borrowing Rates**

Sector forecast the PWLB new borrowing rates to be as follows (see overleaf):-

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

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 up 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 variable rate loans for up to 10 years.
- Short dated borrowing from non PWLB 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 fixed rate loans 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.

**Sensitivity of the forecast** – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council treasury officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

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

## 8.2 External –v- Internal Borrowing

<b>Table 3: Comparison of gross and net debt positions at year end</b>	<b>2012/13</b>				
	<b>2011/12 Actual £'000</b>	<b>Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
External debt (gross)	173,818	172,834	186,561	204,926	221,058
Cash balances	(90,507)	(83,000)	(83,000)	(83,000)	(83,000)
<b>Net Debt</b>	<b>83,311</b>	<b>89,834</b>	<b>103,561</b>	<b>121,926</b>	<b>138,058</b>

- The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns. Measures taken in the last year have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

- The next financial year is expected to continue to be one with an abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to review their strategy of undertaking new external borrowing.
- Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings. This strategy will be weighed up against the requirement to maintain a sufficient level of cash balances to ensure sufficient liquidity.
- The Council will continue to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

### **Proposed Strategy**

In order to minimise Treasury Management interest costs, the main strategy proposed will be to monitor changes in market conditions and utilise internal funds from maturing investments to fund borrowing requirements until such time when existing conditions are no longer in force. This will reduce the exposure to low investment yields compared to external borrowing costs and place less reliance on the money market, banks and investment institutions during this challenging period. However, should interest rates on borrowing (PWLB or money market loans) become more favourable, then consideration will be given to taking out a new loan(s) over the appropriate investment period.

Against this background, caution will be adopted with the 2013/14 treasury operations and the Director of Finance and Corporate Services will report to Members on any proposed changes to the strategy arising from variations to market circumstances.

### 8.3 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them.
- Consider the impact on resources arising from any grant conditions.

### 9. Debt Rescheduling

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 this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to the 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.

No rescheduling is anticipated in 2013/14. If rescheduling does take place it will be reported to the Policy and Resources Cabinet Board, at the earliest meeting following its action.

## **10. Annual Investment Strategy**

### **10.1 Investment Policy**

The Council's investment policy has regard to the WG's 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 the above, 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 and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector 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.



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 diversification 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 Addendum 4 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

## **10.2 Creditworthiness Policy**

This Council uses the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:-

- credit watches and credit outlooks from credit rating agencies
- sovereign ratings to select counterparties from only the most creditworthy countries

All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

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

In accordance with the Code, the Director of Finance and Corporate Services has produced its Treasury Management Practices (TMP's). This part TMP1 covering investment counterparty policy requires approval each year.

### 10.3 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 Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Addendum 4. This list will be added to or deducted from by officers should ratings change in accordance with this policy. In addition the Council will also seek to obtain sovereign guarantees wherever possible.

### 10.4 Investment Strategy

**In-house funds:** The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £60m. The remaining cash balances are mainly cash flow derived and available for short term investment only.

Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

The Council has no investments at this time that are beyond 12 months.

The Council is not committed in the current financial year to any forward investments.

**Interest rate outlook:** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.75%
- 2015/16 1.75%

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.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available with counterparties of particularly high credit worthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

For 2013/14 the Council has budgeted for an investment return of 1.5% on investments placed during the financial year. This position is not without risk and regular updates will be provided to the Policy and Resources Cabinet Board to monitor this estimate.

### **10.5 Icelandic Bank Investments**

The Icelandic courts have supported the view that the Council will be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

### **10.6 End of Year Investment Report**

Members will receive a report on its 2012/13 investment activity as part of the Annual Treasury Report by 30<sup>th</sup> September 2013 and its 2013/14 activity by 30<sup>th</sup> September 2014.

### **10.7 Policy on the Use of External Service Providers**

The Council uses Sector as its external treasury management advisers.

The Council 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.

However it is recognised that responsibility for treasury management decisions remains with the Council.

## **10.8 Role of the Section 151 Officer**

The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

## **11. Minimum Revenue Provision**

### **11.1 Introduction**

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

The cumulative debt liability upon which Minimum Revenue Provision is calculated relates to all capital expenditure that has not been financed from the Council's own resources e.g. reserves, capital receipts or financed externally from grants and contributions. In general, the MRP will be applied to All Borrowing arrangements carried out by the Council – whether this be via Supported Borrowing (Welsh Government funded as part of the Annual RSG Settlement) or via Prudential Borrowing.

## **11.2 Statutory Duty**

The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 places a duty on the Council to make prudent provision for the cost of the principal element of loans (Minimum Revenue Provision) for non housing debt.

The regulations also require the Authority to prepare an annual policy statement/determination outlining which of the 4 options for calculating the (MRP) have been chosen for that year. Details of each of the 4 options available are included below. These are:-

- Option 1: Regulatory Method
- Option 2: Capital Financing Requirement (CFR) Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

### **Option 1: Regulatory Method**

This is the traditional historical method of determining the amount of MRP to be charged to the Council's Revenue Account. It is based on 4% of the opening credit ceiling each year. The Welsh Government provides funding for supported borrowing costs through the annual Revenue Support Grant Settlement.

### **Option 2: Capital Financing Requirement (CFR) Method**

This is based on the concept of the Capital Financing Requirement (CFR). This concept was introduced with effect from 31<sup>st</sup> March 2004 to replace the traditional credit ceiling calculation used in Option 1 above and includes a differential between the actual balance sheet borrowing requirement and the historical cumulative credit ceiling. Under this option there would be a higher charge to the revenue account than that set out in Option 1 above.

**Option 3: Asset Life Method**

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, Option 3 makes provision based on the estimated life of the asset. This option must be applied for any expenditure capitalised under a Capitalisation Direction.

**Option 4: Depreciation Method**

For new borrowing under the Prudential system for which no Government support is being given, this means making MRP in accordance with the standard rules for depreciation accounting.

**Minimum Revenue Provision Policy Statement 2013/14**

The major proportion of the MRP for 2013/14 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance (Regulatory Method).

Certain expenditure e.g. as funded via Prudential Borrowing reflected within the debt liability at 31st March 2013 will be subject to MRP as set out under option 3, i.e. charged on the basis of asset life and using the equal annual instalment or annuity methods as appropriate. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Where some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

**The Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011**

Neath Port Talbot County Borough Council has formally adopted the revised Code, the main proposals of which are:-

- a) All councils must formally adopt the revised Code which must be approved by Full Council.
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- h) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- i) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named Committee.
- j) Treasury management performance and policy setting should be subjected to scrutiny prior to approval.
- k) Members should be provided with access to relevant training.

**The Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011**

- l) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- m) Responsibility for these activities must be clearly defined within the organisation.

Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.



## Prudential and Treasury Indicators

### Table 4 Prudential Indicators

#### A4.1 Estimates of Capital Expenditure

‘The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. The estimates below are based on the latest approved budgets which will be revised when changes to the capital programme are known.

	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
Capital Expenditure	76,125	72,629	43,542	29,385	11,571

The Authority expects to supplement its Capital Expenditure Programme in 2013/14 and beyond through additional external grant funding of projects. These figures will be updated in future years.

#### A4.2 Estimates of Capital Financing Requirement (CFR)

The term Capital Financing Requirement represents the projected total amount of borrowing needed to fund Capital Expenditure. The sums involved are shown below:

	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
CFR	197,733	208,288	224,657	244,979	263,091

## Prudential and Treasury Indicators

### A4.3 Affordability Indicators

These indicators consider the estimated impact of capital financing costs on the net budget and taxpayers of the Authority.

	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
<b>Estimated ratio of financing cost to net revenue stream:</b>					
- for General Fund	6.54%	6.45%	6.41%	6.68%	6.73%
<b>Estimate of incremental impact of new capital investment decisions on:</b>					
- Council Tax	10.71	(1.33)*	30.17	24.09	10.66

*\* The reduction in 2012/13 Revised Estimate is due to repayment of Prudential Borrowing Investment via annuity method over the Asset Life*

### Table 5 Treasury Management Indicators

The following Treasury Management Indicators are required:-

### A5.1 Operational Boundary

The local authority will set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt. The operational boundary should be based on the Authority's estimate of most likely i.e. prudent, but not worst case scenario.

	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
Operational Boundary	248,396	224,834	238,561	256,926	273,058

## Prudential and Treasury Indicators

### A5.2 Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its external debt.

	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
Authorised Limit	268,396	244,834	258,561	276,926	293,058

A5.3 The following limits be established to administer interest rate exposure for the next 3 years.

	<b>2011/12  Actual £'000</b>	<b>2013/14 to 2015/16  Estimate £'000</b>
Upper Limit on Fixed Interest Rate Exposure	173,818	293,058
Lower Limit on Fixed Interest Rate Exposure	0	0
Upper Limit on Variable Interest Rate Exposure	86,909	146,529
Lower Limit on Variable Interest rate Exposure	0	0

The above limits will be measured upon the net principal invested method. This method takes account of total borrowing outstanding less principal sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2011/12 Actual £'000</b>	<b>2012/13 Revised Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>
	£25m	£25m	£25m	£25m	£25m

## Prudential and Treasury Indicators

A5.4 The Borrowing Maturity structure will be:

<b>Maturity Structure of Fixed Rate Borrowing during 2013/14</b>	<b>2013/14 Estimate %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	1	15	0
12 months to 2 years	1	15	0
2 to 5 years	6	40	0
5 to 10 years	20	60	0
10 years +	72	100	15

## Economic Background

### 1. The Global economy

The Eurozone debt crisis has continued to have a negative impact on the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 0.9% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter before a probable return to negative growth in quarter 4; this would leave overall growth in 2012 close to zero and could then lead into negative growth in quarter 1 of 2013, which would then mean that the UK was in its first triple dip recession since records began in 1955.

The **Eurozone sovereign debt crisis** abated following the ECB's commitment to a programme of Outright Monetary Transactions i.e. a pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request, (for a national bailout), and so surrendering its national sovereignty to IMF supervision. However, the crisis in Greece has subsided, for the time being, as a result of the Eurozone agreement to provide a further €50bn financial support package in December. Many commentators, though, still view a Greek exit from the Euro as being likely in the longer term as successive rounds of austerity packages could make it more difficult to bring down the annual deficit and total debt as ratios of GDP due to the effect they have on shrinking the economy and reducing employment and tax revenues. However, another possible way out would be a major write down of total Greek debt; this has now been raised by the German Chancellor as a possible course of action, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and additional financial support for Greece to ensure that the Eurozone remained intact during 2012. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and do not address the huge obstacle of unemployment rates of over 25% in Greece and Spain. It is also possible that the situations in Portugal and Cyprus could deteriorate further in 2013 and, although they are minor economies, such developments could unnerve financial markets. There are also general elections coming up in Italy and Germany which could potentially produce some changes on the political scene. It is, therefore, quite possible that sentiment in financial markets could turn during 2013 after the initial burst of optimism at the start of the year. While equity prices have enjoyed a strong start to 2013, the foundations for this stock market recovery are shallow given the economic fundamentals in western economies. In addition, QE has to come to an end at some point in time and there is a distinct increase in doubt in the central banks of the US and UK as to the effectiveness of any further QE in stimulating economic growth. An end to central purchases of bonds may lead to a fall in bond prices.

## Economic Background

### The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended, in the autumn statement, over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. The dominant services sector disappointed in December with the PMI survey indicating the first fall in activity in two years. On the positive side, banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

**Economic Growth.** Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) increased by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic activity. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) was also effectively a further addition of QE.

**Unemployment.** The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

**Inflation and Bank Rate.** Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of the year, though it is expected to fall back to reach the 2% target level within the two year horizon.

## **Economic Background**

**AAA rating.** The UK continues to enjoy an AAA sovereign rating. However, the three main credit rating agencies have stated that they will be reviewing this rating in early 2013; they will, thereafter, also be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

### **Sector's forward view**

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself. The same considerations could also apply to Spain;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Italy and Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;

**Economic Background**

- the situation in Syria deteriorating and impacting other countries in the Middle East.

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.



## Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**. In order to limit the counterparty risk exposure, the Council adopts stringent credit criteria, maximum investment periods and amounts for the various categories of counterparty, as reflected below.

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Funds Managed</b>	<b>Max Amount</b>	<b>Max Duration</b>
<b>Fixed term deposits with fixed rate and fixed maturity:</b>				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	1 year
Term deposits – local authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1 with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+ with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£15m	1 year
Tern deposits – Barclays Bank Plc	Fitch short-term rating F1 with a support rating of 1 and a stable outlook	In-house	£15m	6 months
Term deposits – UK banks/Building Societies	Fitch short-term rating F1 with a support rating of 1 and a stable outlook	In-house	£10m	6 months
Principality Building Society	Fitch short-term rating F2	In-house	£3m	6 months
Co-operative Bank	Fitch short-term rating F2	In-house	£3m	6 months
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months
Callable deposits -	Fitch short-term rating F1 or F1+	In-house	As above with the addition of a £3m limit for the Council’s bankers Santander	

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.
2. Supranational Bonds of less than 1 year duration – there are two categories:
  - (a) multilateral development bank bonds such as European Investment Bank Bonds.
  - (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.
3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

At present the Council does not intend to utilise these investment types.

### Non-Specified Investments:

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

#### Maturities in excess of 1 year

	<b>Minimum Credit Criteria</b>	<b>Funds Managed</b>	<b>Max. Investment</b>	<b>Max. Maturity Period</b>
<b>Fixed term deposits with fixed rate and fixed maturity</b>				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
<b>Fixed term deposits with variable rate and variable maturities</b>				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

#### Other

The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible to a maximum of £3m and maximum investment period of 3 months.

## **The Monitoring of Investment Counterparties**

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

## **Government Support**

The original list of banks covered when the support package was initially announced was: -

- Part Nationalised Banks:
  - Lloyds Group
  - RBS
- Others:
  - Barclays
  - HSBC
  - Nationwide Building Society
  - Standard Chartered

## **Approved Countries for Investments**

At present the Council has the ability to invest in the countries as set out below, but proposes to limit its investments during 2013/14 to the UK. However, the Council will take account of all information if making investment in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher. However should the UK sovereignty rating reduce the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on lowest available rating:

### **AAA**

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

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