

AUDIT COMMITTEE

24TH MARCH 2014

FINANCE & CORPORATE SERVICES

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

INDEX OF REPORT ITEMS

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Report Item	Page Nos.	Wards Affected
SECTION A – MATTER FOR DECISION		
1. Internal Audit Plan for the Period 1 st April 2014 to 31 st March 2015	2-15	
SECTION B – MATTER FOR INFORMATION		
2. Internal Audit Service – Progress Report to 28 th February 2014	16-29	All
SECTION C – MATTERS FOR MONITORING		
3. Treasury Management Monitoring 2013/14	30-33	All
4. Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy	34-60	All

SECTION A – MATTERS FOR DECISION

ITEM 1 - INTERNAL AUDIT PLAN FOR THE PERIOD 1ST APRIL 2014 TO 31ST MARCH 2015

1. Purpose of Report

- 1.1 The purpose of this report is to agree the Internal Audit Plan for 2014/15.

2. Audit Plan 2014/15

- 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

Finance & Corporate Services Directorate

Internal Audit Service

**INTERNAL AUDIT PLAN
FOR THE PERIOD
1st APRIL 2014
To
31st MARCH 2015**

ISSUE DATE: MARCH 2014

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

AUDIT PLAN 2014/15

CONTENTS

Heading

Foreword to Plan

Section 1

Legislative Requirements

Section 2

Calculation of Available Days

Section 3

Detailed Audit Plan in respect of 2014/15

INTERNAL AUDIT SERVICE

STRATEGIC AUDIT PLAN IN RESPECT OF THE PERIOD 1st APRIL 2014 TO 31st MARCH 2015

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 1st April 2014 to 31st March 2015.
- .2. The plan has been prepared using the following assumptions and methodology.
- .3. A staffing complement of 7.81 (FTE) has been used, which is reduced from 9 (FTE) in the previous financial year.
- .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.
- .5. The risk factors noted against each audit heading are 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.
- .6. Other items of note included within the plan are:
 - Ongoing review of non-financial Corporate Governance issues, along with issues such as risk management and data protection.
 - The reduced number of available days from 1,365 to 1,150 as a result of the reduction in staffing level due to the budget savings required from the section.

- .7. The plan details the areas that are due to be audited during 2013/14. However, the audit plan is almost invariably subject to change as issues arise during the year. This flexibility is vital to ensure that new or increased risks are assessed and reported upon in order that assurance can be provided to members. 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. The sections work will also follow the requirements of the Public Sector Internal Audit Standards.

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 21st 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 will also now fall 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:

- Changes to the structure of the section following the deletion of the Chief Internal Auditor post.
- Provide an adequate level of audit coverage given the reduced resources available to the section.
- Provide assurance to members on the adequacy and effectiveness of internal controls on systems that have been affected by the budget reductions faced by 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 24th March 2014.

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 25th 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:

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 2014/15 **CALCULATION OF AVAILABLE DAYS**

- 2.1. The total number of days included in the Plan is based on a total of 7.81 (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 1,420. 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 1,150 days available for planned work. This is a decrease from the previous year's figure of 1,365 days and reflects the fact that at the start of the year the Chief Internal Auditor's post will be deleted and the section will be re-structured.



SECTION 3

INTERNAL AUDIT ANNUAL PLAN 2012/13

Service Area	Days Allocated	Risk Factor*
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Education, Leisure & Lifelong Learning

School Based Audits:

Primary Schools	120	M
Secondary Schools	35	H

Other Education:

Adult Education	20	M
PLASC	15	M

Leisure, Culture & Lifelong Learning:

None

190

Notes:

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

Service Area	Days Allocated	Risk Factor*
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Finance & Corporate Services

Revenue Collection:

Council Tax	25	M
NNDR	15	M
Sundry Debtors	20	H
Cash Collection	15	H

Benefits Administration:

Housing Benefits	25	M
Attendance at Prosecution Panel	15	N/A

Exchequer:

Payroll	25	M
Creditor Payments	25	H
Travel & Subsistence Allowances	10	M

Accountancy:

Treasury Management	20	H
Bank Reconciliation	5	M

Legal Services:

None

200

Chief Executive's

Electoral Registration	10	M
Internal/Public Information	10	L
	20	

Notes:

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

Service Area	Days Allocated	Risk Factor*
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Social Services, Health & Housing

Housing General Fund:

Homelessness	25	M
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Social Services:

Fostering and Adoption	20	H
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Hillside Secure Unit	15	M
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Community Meals	20	M
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Environmental Health	20	H
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Pre Employment Checks –Adults	10	
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110

Environment

Asset Register	18	M
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Stores/Equipment	5	M
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Planning	15	M
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Grant Funding	20	H
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CRC Submission	7	H
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65

Notes:

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

Service Area	Days Allocated	Risk Factor *
<u>Cross Directorate</u>		
Special Investigations	190	N/A
Advice and Guidance and Requests	70	N/A
I.T. Audit	45	N/A
Contract Audit	45	N/A
Corporate Governance Arrangements(1)	20	N/A
Bribery Act	15	N/A
Officer Declarations	10	M
Data Protection	10	H
Petty Cash	15	M
Risk Management	10	M
Banking System Administrator	10	N/A
	440	
Other Commitments:		
Attendance at Working Parties	20	N/A
Servicing/Attendance at Audit Committee	20	N/A
FOI Requests	5	N/A
Review of Accounting Instructions	5	N/A
Contingencies	30	N/A
West Glamorgan Blind Welfare Association	10	N/A
WPI Work inc. Performance Indicators	25	L
SWTRA	10	N/A
	120	
Total Days Available 2013/14	1150	

Notes:

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

(1)Includes production of Annual Governance Statement (5 days)

SECTION B – MATTERS FOR INFORMATION

ITEM 2

INTERNAL AUDIT SERVICE – PROGRESS REPORT TO 28TH FEBRUARY 2014

1. Purpose of the report

- 1.1 To provide details of the work undertaken for the period from the 1st December 2013 to 28th February 2014 and an update on progress against the 2013/14 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 quarter. 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 staff vacancies and other staffing issues within the section.

3. Audit Assignments Completed

- 3.1. A total of 18 formal audit reports have been issued since the 1st December 2013 in line with normal distribution guidelines.
- 3.2. The following is a summary list of the reports that have been issued:
- Three Special Investigations
 - Five Primary Schools
 - One Comprehensive School
 - Trade Waste
 - Hillside Secure Centre
 - Equipment Stores
 - Bank Reconciliations
 - Building Services
 - Pre-employment Checks CYPS
 - Petty Cash Regular Sample Checks
 - Vocational Skills Centre

- **Building Control**

- 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 2013/14 audit plan.
- 4.2. There are currently 2 special investigations in progress.
- 4.3. At the last committee there were 6 active special investigations. Three of these have now been concluded and formal reports issued, one is still ongoing, another was incorporated into a planned audit and the remaining one was closed due to lack of evidence. In addition to this 3 new investigations have been undertaken of which 2 have been completed and one remains ongoing.

Staffing

- 4.4. Currently there are three members of staff studying for their professional accountancy qualifications. Two are studying CIPFA and one ACCA; they are currently at different stages of their various courses.

5. National Fraud Initiative (NFI)

- 5.1. The current (13/14) exercise is underway, with the reports on data matches having been received from NFI in early February.
- 5.2. 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.

- 5.3. Updates on progress will be provided in forthcoming Audit Committee meetings.
- 5.4. Further data sets i.e. Council Tax and Electoral Register are in the process of being compiled to be forwarded to NFI for the interim data matching exercise.

6. Update

- 6.1 At the audit committee meeting held in December 2013 Members asked for details of any arrangements similar to that of Property Bay Wales that the Authority was party to.

- 6.2 The Authority has shareholdings in 3 companies in addition to its holding in respect of Property Bay Wales.

- 6.2.1 Neath Port Talbot Waste Management Company Ltd

- The Authority has a 100% shareholding in NPTWM who ran the former landfill site. This in turn has a 100% shareholding in Neath Port Talbot Recycling Ltd which runs MREC (the Materials, Recovery & Energy Centre)

- 6.2.2 Baglan Bay Company Ltd

- The Authority holds a 50% share in Baglan Bay Company Ltd with other shares being held by St Modwen Developments Ltd (25%) and the Prince's Foundation (25%). The Principal activity of this company is that of monitoring the remediation of the former BP sites in the Swansea Area.

- 6.2.3 Coed Darcy Ltd

- The Authority holds a 46% share in Coed Darcy Ltd with other shares being by St Modwen Developments Ltd (49%) and the Prince's Trust (5%). The principal activity of this company is that of property investment. The company is also responsible for monitoring the remediation of the former BP oil refinery at Llandarcy. It also has an aim to stimulate and promote the creation in Wales of new enterprises.

- 6.3 Public Sector Internal Audit Standards

- From 1st April 2013 the standards which govern Internal Audit have changed. The objectives of the new standards are to define the nature of internal auditing, set basic principles for carrying out internal audit in the UK public

sector, establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations and establish the basis for evaluation of internal audit performance and to drive improvement planning. The section's performance against the new standards will be judged by Wales Audit Office. There is also a requirement that the section will be evaluated by an external source, other than Wales Audit Office, every 5 years.

A summary of the new standards is given below:

Standard 1000 - Purpose, Authority & Responsibility

The purpose, authority and responsibility of an internal audit service must be formally defined in an internal audit charter, consistent with the Definition of Internal Audit, the Code of Ethics and the Standards. The chief audit executive, in NPT this is the Head of Financial Services, must periodically review the internal audit charter and present it to senior management and the board for approval.

Standard 1100 - Independence & Objectivity

The internal audit service must be independent and internal auditors must be objective in performing their duties

Standard 1110 – Organisation Independence

The chief audit executive must report to a level within the organisation that allows the internal audit service to fulfil its responsibilities. The chief audit executive must confirm to the board, in the case of NPT this is the Audit Committee, at least annually, the organisational independence of the internal audit service.

Standard 1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

Standard 1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Standard 1130 – Impairment to Independence or Objectivity

If independence of objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to the appropriate parties. The nature of the disclosure will depend upon the impairment.

Standard 1200 – Proficiency & Due Professional Care

Engagements (audits) must be performed with proficiency and due professional care.

Standard 1300 – Quality Assurance & Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service.

Standard 2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit service to ensure that it adds value to the organisation.

Standard 2010 – Planning

The chief audit executive must establish risk-based plans to determine priorities of the internal audit service, consistent with the organisation's goals.

Standard 2020 – Communication & Approval

The chief audit executive must communicate the internal audit service's plans and resource requirement, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Standard 2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Standard 2040 – Policies & Procedures

The chief audit executive must establish policies and procedures to guide the internal audit section.

Standard 2050 – Co-ordination

The chief audit executive should share information and co-ordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Standard 2060 – Reporting to Senior Management & the Board

The chief audit executive must report periodically to senior management and the board on the internal audit service's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

Standard 2070 – External Service Provider & Organisational Responsibility for Internal Audit

When an external service provider serves as the internal audit service, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit service.

Standard 2100 – Nature of Work

The internal audit service must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Standard 2120 – Risk Management

The internal audit service must evaluate the effectiveness and contribute to the improvement of risk management processes.

Standard 2130 – Control

The internal audit service must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Standard 2200 – Engagement Planning

Internal auditors must develop and document a plan for each audit, including the audit's objectives, scope, timing and resource allocations.

Standard 2300 – Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the audit's objectives.

Standard 2400 – Communicating Results

Internal auditors must communicate the results of the audit.

Standard 2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

Standard 2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Appendices

Appendix 1 – Published Reports

Appendix 2 – Audit Plan Monitoring 2013/14

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
2013-14 R59	Blaenbaglan Primary School	Excellent controls were found to be in place for most areas with only minor enhancements needed in a few areas.	2
2013-14 R60	Trade Waste	The report details the processes in place to store and record information in relation to Trade Waste clients. Due to the changes currently being rolled out in relation to collections and procedures further testing will be undertaken when these are implemented.	2
2013-14 R61	SI - SSHH Employee	Complaint received from member of the public re conduct outside of work. Report issued advising disciplinary action be taken.	N/A
2013-14 R62	Creunant Primary	The school has good controls in place in some areas tested and the report makes recommendations to enhance the controls in other areas including that of staff checks.	2
2013-14 R63	Hillside Secure Centre	Excellent controls were found to be in place in all areas of financial management and subsequently no recommendations were made.	1
2013-14 R64	YGG Cwmllynfell	Generally good controls were in place in all areas tested. Some recommendations were made in a small number of areas which should be easy for the school to implement.	2
2013-14 R65	Equipment Stores	Good procedures are in place to control the stock inventories, recommendations have been made that when implemented will improve the operation of the system.	2
2013-14 R66	Sandfields Comprehensive School	Good controls are in place for all areas tested. Any recommendations made in this report are either of a minor nature or will be easy for the school to address.	2
2013-14 R67	Bank Reconciliations	Bank reconciliations for all accounts tested were found to be up to date with all reconciliations signed and dated by the preparer and reviewer.	1

PUBLISHED REPORTS

Report Ref	Report Subject	Report Conclusion	Category
2013-14 R68	Llangiwg Primary	On the whole there are good controls in place with recommendations made to improve certain areas, including that of staff checks, which the school should be able to easily implement.	2
2013-14 R69	Alltwen Primary	There were good controls in place for several areas tested and recommendations have been made in other areas to improve controls.	2
2013-14 R70	Special Investigation - Employee IJ	This arose from an internal referral. The investigation upheld the allegation and disciplinary action was recommended.	N/A
2013-14 R71	SI - Training & Development - Travel & Subsistence Claims	There were no instances of fraud found as a result of the investigation, though recommendations were made to strengthen uniform application of the policy across the Authority.	2
2013-14 R72	Building Services	Main recommendations surrounded a review of the TPMS IT system, and to establish controls which ensure that there are timely notifications of when electrical testing certificates are due to expire.	2
2013-14 R73	2nd Report Pre-Employment Checks CYPS	Not all of the required checks were in place for 6 of the 20 new starters.	2
2013-14 R74	Petty Cash Regular Sample Checks	In general all petty cash accounts looked at as part of this audit are administered correctly. Some minor issues were found that have been brought up with the account holders.	1
2013-14 R75	Vocational Skills Centre	Good controls are in place in relation to creditors, kitchen records and security. Enhancements are required in respect of income, staff contracts and the inventory.	2

PUBLISHED REPORTS

Report Ref	Report Subject	Report Conclusion	Category
2013-14 R76	Building Control	Excellent procedures and controls were found to be in operation with only minor recommendations given, which the service will implement.	2

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

Monitoring Date		28 th February 2014			
Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Education, Leisure & Lifelong Learning					
<u>School Based Audits</u>					
Twenty Primary Schools	M	3 reports issued	3 reports issued	Total of 9 reports issued, additional 2 draft reports completed. Remaining schools booked in for rest of year.	Total of 14 reports issued, additional 5 draft reports complete. Remaining school booked in for March.
Three Secondary Schools	H	One Comprehensive School.	Remaining Schools to be booked in this quarter.	Pupil Referral Unit report issued, 2 Secondary Schools booked in.	2 Secondary Schools and Pupil Referral Unit completed. Draft report completed on 3 rd school.
<u>Other Education</u>					
Delegated School Reserves	M	Report completed by ELLL			
<u>Leisure, Culture and Lifelong Learning</u>					
Margam Park	M	Orangery and Charlotte’s Pantry complete	Main Park to start in September	Report issued on Main Park	
Finance and Corporate Services					
<u>Revenue Collection</u>					
Council Tax	H	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Report will be issued in March/April
NNDR	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Report will be issued in March/April
Debtors	H	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Report will be issued in March/April
Cash Collection	H	Random unannounced checks being undertaken	Random unannounced checks being undertaken	Random unannounced checks being undertaken	Random unannounced checks being undertaken

Appendix 2

AUDIT PLAN MONITORING

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<u>Benefits Administration</u>					
Benefits	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Audit in progress
Prosecution Panel	N/A	On-going	On-going	On-going	
<u>Exchequer</u>					
Payroll	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken and work started on audit
Creditors	H	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken and work started on audit
Travel Expenses	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken
<u>Accountancy</u>					
Treasury Management	H			Due to be completed in 4 th quarter	Audit in progress
Bank Reconciliation	M		Due to start in November	No due to start in January	Report issued
Insurance	M		Audit started	Report issued	
<u>Legal Services</u>					
None					
Chief Executive's					
Members' Declarations of Interest	M	Report issued			
Urgency Action Procedures	L		Draft report issued	Final report issued	
Social Services, Health & Housing					
<u>Housing General Fund</u>					
Housing Renewal Area	M			Scheduled to start in next quarter	Audit in progress

AUDIT PLAN MONITORING

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<u>Social Services</u>					
Monitoring of External Care providers	H			Audit in progress	Audit in progress
Hillside Secure Unit	M			Audit in progress	Final Report issued
Direct/Indirect Payments	M			Audit direct payments report issued	
Childrens' Services	H		Discussions being held re work to be carried out	2 audits undertaken in relation to safe recruitment	
Route 16	M			Audit in progress re Route 16 expenditure	
Environment					
Building Maintenance	M	In progress	In progress	Audit nearing completion, delay due to IT issues encountered during audit	Report issued
Stores / Equipment	M			Audit started	Report issued
Planning / Building Regulations	M			Audit started	Report issued
Fuel Usage of Vehicles	M			Ongoing	Ongoing
Trade Waste	M			Added in at request of Head of Service. Draft report issued.	Report issued
Cross Directorate					
Special Investigations	N/A	2 in progress	2 complete, 3 in progress	2 reports issued, 6 in progress	2 in progress
Advice and Guidance	N/A	On-going	On-going	On-going	On-going
IT Audit	N/A		In progress	In progress	In progress
Contract Audit	N/A	On-going	On-going	On-going	On-going
Corporate Governance	N/A		In progress	In progress	On-going
Bribery Act	N/A			Scheduled for next quarter	Moved to next year due to other pressures
Officer Declarations	M	On-going	Report issued		
FOI Act	M			Scheduled for next quarter	Moved to next year due to other pressures
Petty Cash	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken

AUDIT PLAN MONITORING

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
CRB Checks	M	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken	Monthly checks being undertaken
VFM Work	N/A			On-going	On-going
Annual Governance Statement	N/A			On-going	On-going
Banking System Administrator	N/A	On-going	On-going	On-going	On-going
Other Commitments					
Working Parties	N/A	On-going	On-going	On-going	On-going
Audit Committee	N/A	On-going	On-going	On-going	On-going
FOI Requests	N/A	None received to date	2 received and replied to	None received this quarter	None received this quarter
Accounting Instructions	N/A			Sundry Debtors updated	
Contingencies	N/A	One grant claim audited. Audit of Cognation Project ongoing at the request of the manager.	Cemeteries – report issued. Cefn Coed Colliery Museum – report issued. Request from Head of Financial Services re advertising income.	Free school breakfast grant report issued.	
WGBWA	N/A		Due to start in September.	Report issued.	
WPI's	L	In progress	Work complete and 10 reports issued.		
SWTRA	N/A				

SECTION C – MATTERS FOR MONITORING

ITEM 3

TREASURY MANAGEMENT MONITORING 2013/14

1. Purpose of Report

This report sets out treasury management action and information since the previous report.

2. Rates of Interest

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

Effective Date	Bank Rate
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 3rd February 2014.

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 30 Jan 14	Current 03 Mar 14	Previous 30 Jan 14	Current 03 Mar 14	Previous 30 Jan 14	Current 03 Mar 14
	%	%	%	%	%	%
5-5.5 years	1.87	1.84	1.88	1.85	2.70	2.65
10-10.5 years	2.70	2.65	2.75	2.69	3.64	3.58
20-20.5 years	3.64	3.58	3.75	3.68	4.22	4.15
35-35.5 years	4.15	4.08	4.24	4.17	4.29	4.23
49.5-50 years	4.29	4.22	4.30	4.24	4.25	4.19

3. General Fund Treasury Management Budget

The following table sets out the treasury management budget for 2013/14 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

The rate of return on investments has reduced considerably in 13/14 due to schemes introduced by Central Government (Funding for Lending, Help to Buy); therefore we have had to reduce our income target for investments by £350k. There is no overall change to the debt charges budget as expenditure has reduced in line with income.

	2013/14 Original Budget £'000	2013/14 Revised Budget £'000
Debt Charges	17,466	17,166
Investment Income		
- Total	(1,250)	(900)
- less allocated to other funds	210	160
- General Fund (net)	(1,040)	(740)
Net General Fund	16,426	16,426

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

4. Borrowing

No borrowing has been carried out since the last report.

5. Investment Income

In line with the Council's Investment Strategy, the 2013/14 Revised Budget for investment income is £900k; treasury management investment income to the end of February totals £782k.

Members should note that the majority of investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including Barclays, Lloyds Group, Bank Santander, Clydesdale, RBS and Nationwide BS.

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.

No additional long term investments have been carried out since the last report. The Council currently has £10m invested for periods in excess of 12 months:

Counterparty	Value £'000	Period	Maturity	Rate %
Eastbourne Borough Council	4,000	4.5 Years	June 18	2.2
Peterborough City Council	6,000	5 Years	Dec 18	2.1

Icelandic Bank Update

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

There have been no further dividends received since the last report. The tables below show the amounts outstanding.

Table 1 – Original Investments

Bank	Original Investment	Amount of Principal Repaid	Current Outstanding Investment
	£'000	£'000	£'000
Glitnir	2,000	2,000	0
Heritable	9,000	8,597	403
KSF	3,000	2,516	484
	14,000	13,113	887

As members are aware a final settlement was received from Landsbanki on 3rd February. Some of the proceeds were received in different currencies i.e. Dollars, Euros, Sterling and Icelandic Kroner. As a result of this there have been exchange rate variations, following the Icelandic Court decision, which will impact on the actual cash proceeds physically received.

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

Bank	Investment (Sterling Equivalent) £'000	Amount Repaid £'000	Outstanding Investment £'000
New Glitnir	387	0	387

Some of the investments matured by the old Glitnir 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 bank are held in an Escrow Account in the name of the local authority and generating interest in excess of 4%.

List of Background Papers

Treasury Management Files

PWLB Notice Number 086/14

Appendix

None

Wards Affected

All

Officer Contact

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ITEM 4

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

1. Purpose

This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2014/15.

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 2009 (as updated for 2011) 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.

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 1st 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 30th 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 for the year ahead, a mid-year Review Report and an Annual 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 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 th 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

2.4 Treasury Management Strategy for 2014/15

The strategy for 2014/15 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, Capita Asset Services.

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

2.5 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 2014/15 to 2016/17

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 Appendix 1 of this report.

4. Current Portfolio Position

The Council's treasury portfolio position at 31st March 2013 comprised:

Table 1	Principal		Ave Rate
		£m	%
Fixed rate funding	PWLB	110.3	5.43
	Market	47.5	3.91
		<u>157.8</u>	
Variable rate funding	PWLB		
	Market	15.0	4.01
		<u>15.0</u>	
Other long term liabilities			
Gross Debt		172.8	4.89
Total investments		71.2	1.29
Net Debt		101.6	

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:

Table 2	2013/14				
	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Revised	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Borrowing requirement	8,792	19,656	24,670	9,856	6,870

6. Prudential and Treasury Indicators for 2014/15 – 2016/17

Prudential and Treasury Indicators (as set out in Appendix 1 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 3rd March 2010 and updated at the Annual Budget setting meeting. Details of this code can be found at Appendix 2 of this report.

7. Prospects for Interest Rates

The Council has appointed Capita Asset Services 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 our central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

8. Borrowing Strategy

8.1 Borrowing Rates

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.

8.2 External –v- Internal Borrowing

Table 3: Comparison of gross and net debt positions at year end	2013/14				
	2012/13 Actual £'000	Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
External debt (gross)	172,834	171,861	170,426	181,758	184,213
Cash balances	(71,168)	(72,000)	(65,000)	(65,000)	(65,000)
Net Debt	101,666	99,861	105,426	116,758	119,213

- 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

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

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.

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

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 identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

No rescheduling is anticipated in 2014/15. 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 and 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, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service potential counterparty 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 Appendix 3 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

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

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings

- sovereign ratings to select counterparties from only the most creditworthy countries

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 Capita creditworthiness service.

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

In addition the Council uses 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 currently has £10m invested for periods in excess of 12 months (See table).

Counterparty	Value £'000	Start Date	Period	Rate %
Eastbourne Borough Council	4,000	19/12/13	4.5 Years	2.2
Peterborough City Council	2,000	04/12/13	5 Years	2.1
Peterborough City Council	2,000	06/12/13	5 Years	2.1
Peterborough City Council	2,000	18/12/13	5 Years	2.1

The decision was taken to invest for longer than 1 year to achieve a higher return on investments, at a time when short term interest rates are at an all time low. The £10m is a relatively small proportion of the core balances available for investments, invested with risk free counterparties and has significantly increased the amount of interest received.

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

2013/14	0.50%
2014/15	0.50%
2015/16	0.50%
2016/17	1.25%

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

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2014/15	0.50%
2015/16	0.50%
2016/17	1.00%
2017/18	2.00%

10.5 Icelandic Bank Investments

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

Bank	Original Investment	Amount of Principal Repaid	Current Outstanding Investment
	£'000	£'000	£'000
Glitnir	2,000	2,000	0
Heritable	9,000	8,597	403
KSF	3,000	2,516	484
Landsbanki Islands HF	6,000	3,308	2,692
	20,000	16,421	3,579

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 4%. £474k is held in Escrow.

The Council expects to recover the balance outstanding over the next few years.

10.6 End of Year Investment Report

Members will receive a report on its 2013/14 investment activity as part of the Annual Treasury Report by 30th September 2014 and its 2014/15 activity by 30th September 2015.

10.7 Policy on the Use of External Service Providers

The Council uses Capita Asset Services (previously known as 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. The council is required to approve its MRP policy for the forth coming financial year ensuring that “prudent provision” is made. The Welsh Government has issued guidance on MRP policy to which the council must have regard.

Minimum Revenue Provision Policy Statement 2014/15

The major proportion of the MRP for 2014/15 will relate to the historic debt liability that will continue to be charged on 4% of the opening capital financing requirement each year.

Certain expenditure funded via Prudential Borrowing will be subject to MRP 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, as determined by the Director of Finance.

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

12. Recommendations

- 12.1 Members should note that the above mentioned strategies were submitted and approved by Cabinet and Council as part of the budget setting process at the end of February 2012 but under the scheme of delegation these are forwarded to Audit Committee for review and monitoring.
- 12.2 Further reports will be forwarded to the Audit Committee and Policy and Resources Committee Scrutiny / Cabinet for in-year monitoring of the above mentioned strategies.

Appendices

Appendix 1 - Prudential and Treasury Indicators

Appendix 2 - Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011

Appendix 3 - Investment Criteria

List of Background Papers

CIPFA – Treasury Management in the Public Sector Code of Practice
Treasury Management Working Papers

Wards Affected

All

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Prudential and Treasury 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.

	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital Expenditure	78,182	56,213	59,088	15,297	9,900

The Authority expects to supplement its Capital Expenditure Programme in 2015/16 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:

	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
CFR	206,516	226,172	250,842	260,698	267,568

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.

	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Estimated ratio of financing cost to net revenue stream:					
- for General Fund	6.34%	5.96%	6.44%	6.67%	6.64%
Estimate of incremental impact of new capital investment decisions on:					
- Council Tax	(7.80)*	12.02	14.61	2.68	1.58

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

The following Treasury Management Indicators are required:-

A5.1 Operational Boundary & Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years an operational boundary & authorised limit 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.

	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Operational Boundary	224,834	224,024	248,694	258,550	265,420
Authorised Limit	244,834	244,024	268,694	278,550	285,420

Prudential and Treasury Indicators

A5.2 The following limits to be established to administer interest rate exposure for the next 3 years.

	2012/13	2013/14	2014/15 to 2016/17 Estimate
	Actual £'000	Revised £'000	Estimate £'000
Upper Limit on Fixed Interest Rate Exposure	172,834	171,861	184,213
Lower Limit on Fixed Interest Rate Exposure	0	0	0
Upper Limit on Variable Interest Rate Exposure	86,417	85,931	92,107
Lower Limit on Variable Interest rate Exposure	0	0	0

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

Upper Limit for total principal sums invested over 364 days	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
	£25m	£25m	£25m	£25m	£25m

A5.3 The Borrowing Maturity structure will be:

Maturity Structure of Fixed Rate Borrowing during 2014/15	2014/15 Estimate %	Upper Limit %	Lower Limit %
Under 12 months	1	15	0
12 months to 2 years	1	15	0
2 to 5 years	7	40	0
5 to 10 years	21	60	0
10 years +	70	100	15

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.

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.

	Minimum ‘High’ Credit Criteria	Funds Managed	Max Amount	Max Duration
<u>Fixed term deposits with fixed rate and fixed maturity:</u>				
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
Term deposits – Barclays Bank Plc	Fitch short-term rating F1 with a support rating of 1 and a short term 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 short term stable outlook	In-house	£10m	6 months
Principality Building Society	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.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

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

	Minimum Credit Criteria	Funds Managed	Max. Investment	Max. Maturity Period
Fixed term deposits with fixed rate and fixed maturity				
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
Fixed term deposits with variable rate and variable maturities				
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 Capita 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; the Council will take account of all information if making investments 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
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Hong Kong
- Netherlands
- U.K.
- U.S.A.