Public Document Pack

Governance Committee

Monday, 3rd February, 2014
at 6.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Furnell (Chair)
Councillor Daunt
Councillor Inglis
Councillor Keogh (Vice-Chair)
Councillor Laming
Councillor Letts
Councillor Parnell

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

Head of Legal and Democratic Services
Richard Ivory
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Democratic Support Officer
Pat Wood
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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

02 Part 2 - Articles

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Public Representations

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

Southampton City Council's Priorities:

- **Economic**: Promoting Southampton and attracting investment; raising ambitions and improving outcomes for children and young people.
- **Social**: Improving health and keeping people safe; helping individuals and communities to work together and help themselves.
- **Environmental**: Encouraging new house building and improving existing homes; making the city more attractive and sustainable.
- **One Council:** Developing an engaged, skilled and motivated workforce; implementing better ways of working to manage reduced budgets and increased demand.

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones – Please turn off your mobile telephone whilst in the meeting.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Dates of Meetings: Municipal Year 2013/14

2013	2014
15 July	3 February
23 September	28 April
16 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTEREST

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Personal Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PERSONAL INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value fo the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having a, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

Agendas and papers are now available via the Council's Website

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 16 December 2013 and to deal with any matters arising, attached.

5 EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the confidential appendices to the following Item.

The report is not for publication by virtue of category 5 (legal professional privilege) and category 3 (financial and business affairs of the Authority) of paragraph 10.4 of the Council's Access to Information Procedure Rules as contained in the Council's Constitution. It is not in the public interest to disclose this information because the overriding principle in relation to legal professional privilege favours maintaining openness of communication between lawyer and client as a fundamental principle in relation to the administration of justice. Such communications would only be disclosed in very limited circumstances where a strong argument in favour of release outweighed the primary principle of privilege. The release of such privileged advice would undermine the Council's ability to take timely and appropriate confidential legal advice in the future. The financial information contained in the report is not in the public interest to disclose as it would prejudice the Council's ability to meet its statutory duties in relation to Best Value if the information was released into the public domain.

6 PAST PRACTICE IN ASSESSING CONTRIBUTIONS FOR ADULT SOCIAL CARE NON RESIDENTIAL CARE

To consider the report of the Director of People providing a briefing on the investigation into the impact for customers of the past financial assessment practice for non residential care, attached.

7 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS 2012/13

To consider the report of the Chief Internal Auditor regarding the External Auditor's annual report on the Certification of Claims and Returns 2012/13, attached.

8 INTERNAL AUDIT PROGRESS REPORT – DECEMBER 2013

To consider the report of the Chief Internal Auditor regarding internal audit progress to the period December 2013, attached.

9 ANNUAL GOVERNANCE STATEMENT 2013-14 AND REVIEW OF 2012-13 ACTIONS

To consider the report of the Head of Finance and IT seeking to approve the assurance gathering process to support the development of the 2013-14 Annual Governance Statement and to note the content of the 2012-13 Action Plan – Status Report, attached.

10 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 TO 2016/17

Report of the Chief Financial Officer regarding the Council's proposed treasury management strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity, attached.

Friday, 24 January 2014 Head of Legal and Democratic Services

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 16 DECEMBER 2013

Present:	Councillors Furnell (Chair), Daunt, Inglis (Except Minute 20), Keogh (Vice-Chair), Laming (Except Minute 20), Parnell and Thorpe
Independent Members:	Mr D Blake and Mr G Wilkinson

20. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 23rd September 2013 be approved and signed as a correct record.

It was noted that a progress report would be brought to the February meeting regarding Non Residential Care Contributions.

21. **SOUTHAMPTON CITY COUNCIL COMPLAINTS 2012/13**

The Committee received and noted the report of the Head of Legal and Democratic Services regarding Complaints received and processed during 2012/13.

It was noted that the Complaints process had been streamlined since the Complaints Review came into effect on 1st July 2013. It was highlighted that the Complaints Team was now fully staffed and that the Council continued to perform well in comparison with other similar Unitary Authorities in the south.

22. **RISK MANAGEMENT FRAMEWORK AND REPORTING**

The Committee received and noted the report of the Chief Financial Officer regarding the Risk Management Framework, the Strategic Risks for 2013-14 as set out in Appendix 1 and the Summary of Directorate Risk Registers as set out in Appendix 2 of the report.

It was agreed that future reports should include a "progress" and "previous assurance level" column.

23. **REVISIONS TO THE CONSTITUTION**

The Committee considered the report of the Head of Legal and Democratic Services seeking approval to recommend to Council (i) revisions to the Member and Officer Protocol and (ii) proposals regarding call ins post election.

RESOLVED that:-

(i) the work undertaken by officers since the Council Meeting on 25 April 2013 in relation to revisions to the Media Protocol as set out in Appendix 1, and to Member training, be noted;
(ii) the progress made on revised member training arrangements be noted and that the recommendations to Council to accept the revisions to the Member and Officer Protocol as set out in Appendix 2 of the report be approved; and
(iii) the recommendations to Council regarding proposals regarding call ins post elections as set out in the report be approved.

24. **<u>ANTI FRAUD AND CORRUPTION POLICY STATEMENT AND STRATEGY</u>**

The Committee considered the report of the Chief Internal Auditor seeking approval of the Anti Fraud and Corruption Policy Statement and Strategy.

<u>RESOLVED</u> that the Anti Fraud and Corruption Policy Statement and Strategy be approved.

25. **<u>EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT</u>**

The Committee considered the report of the Chief Internal Auditor seeking approval of the review conducted in assessing the Effectiveness of the System of Internal Audit and endorsement of the action plan generated from the assessment against the Public Sector Internal Audit Standards and Local Government Application Note.

<u>RESOLVED</u> that:-

(i) the review in assessing the Effectiveness of the System of Internal Audit be approved; and
(ii) the action plan generated from the assessment against the Public Sector Internal Audit Standards and Local Government Application Note be endorsed.

26. **<u>EXTERNAL AUDIT ANNUAL AUDIT LETTER</u>**

The Committee received and noted the report of the Chief Internal Auditor regarding the External Auditors Annual Audit Letter.

It was noted that Mike Bowers was to be reassigned to other Ernst and Young audit functions and Kevin Suter was introduced as the new Ernst and Young Audit Manager. The Chair thanked Mike Bowers for all his work.

by virtue of paragraph number 3, 5 of the Council’s Access to information Procedure Rules

Document is Confidential

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DECISION-MAKER:		**GOVERNANCE COMMITTEE**		
SUBJECT:		**EXTERNAL AUDIT – CERTIFICATION of CLAIMS AND RETURNS 2012/13**		
DATE OF DECISION:		**3 FEBRUARY 2014**		
REPORT OF:		**CHIEF INTERNAL AUDITOR**		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Neil Pitman**	**Tel:**	**023 8083 4616**
	E-mail:	**Neil.pitman@southampton.gov.uk**		
Director	**Name:**	**Mark Heath**	**Tel:**	**023 8083 2371**
	E-mail:	**Mark.heath@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

The purpose of this paper is to provide the Governance Committee with the outcomes of the external auditor's Certification of Claims and Returns – Annual Report 2012/13.

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments.

The 'Certification of claims and returns – annual report' summarises the findings from the external auditor's certification of 2012/13 claims. It includes the messages arising from their assessment of the Council's arrangements for preparing claims and returns and information on claims that were amended or qualified.

Of the work carried out on four claims and returns, the external auditor issued a qualification letter with their certificate on the 2012/13 Housing and Council Tax Benefits grant claim.

RECOMMENDATIONS:

(i) to note the External Auditor's annual report on the Certification of Claims and Returns 2012/13 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee's Terms of Reference require it to be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The following external audit report is attached for consideration in the appendix:

   - Certification of Claims and Returns – Annual Report 2012/13

   The external auditor will be in attendance at the Committee meeting to answer any questions. The report, as attached Appendix 1, has been discussed and agreed with the appropriate officers.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	External Audit Certification of Claims and Returns – Annual Report 2012/13

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

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Agenda Item 7

Appendix 1

Certification of claims and returns annual report 2012-13

Southampton City Council

December 2013

Ernst & Young LLP

Building a better working world

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Building a better working world

INVESTOR IN PEOPLE

The Members of the Governance Committee
Southampton City Council
Civic Centre
Southampton
Hampshire
SO14 7LY

17 December 2013

Ref: SCC/Claims/2012-13

Direct line: 02380 832043

Email: KHandy@uk.ey.com

Dear Member

Certification of claims and returns annual report 2012-13 Southampton City Council

We are pleased to report on our certification work. This report summarises the results of our work on Southampton City Council's 2012-13 claims and returns.

Scope of work

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

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

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

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

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

Statement of responsibilities

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

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

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

Summary

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

We checked and certified four claims and returns with a total value of £244,700,245. We met all submission deadlines. We issued one qualification letter for the Housing and Council Tax Benefits claim. Details of the qualification matters are included in section 1. Our certification work found a more minor error which the Council corrected in respect of the Pooling of Housing Capital receipts return. The amendment had no effect on the amount payable to the DCLG. We have not made any recommendations for improvement.

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

We welcome the opportunity to discuss the contents of this report with you at the 3 February 2014 Governance Committee.

Yours faithfully

K L Handy

Kate Handy
Director
For and on behalf of Ernst & Young LLP
Southampton

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Contents

1. Summary of 2012-13 certification work

We certified 4 claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£131,389,591
Limited or full review	Full
Amended	Not amended
Qualification letter	Yes
Fee - 2012-13 Fee - 2011-12 (60%) Fee - 2011-12 Full	£28,790 £35,505 £52,508
Recommendations from 2011-12:	**Findings in 2012-13**
None	N/A

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

Our initial testing identified two cases where benefit had been underpaid; one relating to Job Seekers Allowance and one relating to the treatment of Working Tax Credits. As no subsidy is paid for underpaid benefit, and these specific errors could not result in overpaid benefit, no further testing was carried out.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim which could lead to an overpayment. We found two cases in our initial testing where an error had been made that if it were to be repeated could lead to an overpayment. In one case the actual level of rent had been incorrectly entered and in the other case the Statutory Sick Pay (SSP) had been included in the benefit calculation for four weeks when it had been awarded for seven weeks.

The results of the extended '40+' testing did not identify any further cases where the actual rent level had been entered incorrectly. The extended testing of SSP cases did identify four further cases where SSP had been incorrectly included in the benefit calculation. The extrapolated value of the SSP errors that were identified in our initial and extended testing amounted to a potential total overpayment of £218 in the claim.

We have reported the underpayments and the results of the 40+testing to the DWP in a qualification letter.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£10,797,570
Limited or full review	Full
Amended	Not amended
Qualification letter	No
Fee - 2012-13 Fee - 2011-12 (60%) Fee - 2011-12 (Full)	£1,850 £3,075 £5,126
Recommendations from 2011-12:	**Findings in 2012-13**
None	N/A

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

We found no errors on the teachers' superannuation return and certified the return without qualification.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£96,747,519
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13 Fee – 2011-12 (60%) Fee – 2011-12 (Full)	£1,180 £2,800 £4,666
Recommendations from 2011-12:	**Findings in 2012-13**
None	N/A

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

We found no errors on the national non-domestic rates return and we certified the return without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£5,765,565
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2012-13 Fee – 2011-12 (60%) Fee - 2011-12 (Full)	£1,130 £1,629 £2,715
Recommendations from 2011-12:	**Findings in 2012-13**
None	N/A

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (DCLG). Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities that have a housing function, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

The testing carried out identified one minor error that has been corrected in relation to the classification of a property. This minor error did not result in a change to the amount payable to the DCLG.

2. 2012-13 certification fees

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

The indicative composite fee for Southampton City Council for 2012-13 was £32,950. We have completed the work required within this indicative fee total. This compares to a charge of £66,677 in 2011-12.

Claim or return	2011-12	2011-12	2012-13	2012-13
	Actual fee £	2011-12 fee less 40% reduction £	Indicative fee £	Actual fee £
Housing and council tax benefits	52,508	31,505	28,790	28,790
HRA subsidies	1,662	997	N/A	N/A
Teachers' superannuation return	5,126	3,075	1,850	1,850
National non-domestic rates return	4,666	2,800	1,180	1,180
Pooling of housing capital receipts return	2,715	1,629	1,130	1,130
Total	**66,677**	**40,006**	**32,950**	**32,950**

Note: Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction and because we were not required under the Audit Commission's certification instructions to complete a full review for the teachers' superannuation, national non-domestic rates and pooling of housing capital receipts returns in 2012/13. As this was our first year as your external auditors we completed full reviews for these returns but the fees for this work has not been recharged you.

3. Looking forward

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

The Council's indicative certification fee for 2013-14 is £35,800. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:
http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/

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

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

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Ernst & Young LLP

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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DECISION-MAKER:		**GOVERNANCE COMMITTEE**		
SUBJECT:		**INTERNAL AUDIT PROGRESS REPORT – DECEMBER 2013**		
DATE OF DECISION:		**3 FEBRUARY 2014**		
REPORT OF:		**CHIEF INTERNAL AUDITOR**		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Neil Pitman**	**Tel:**	**023 8083 4616**
	E-mail:	**Neil.pitman@southampton.gov.uk**		
Director	**Name:**	**Mark Heath**	**Tel:**	**023 8083 2371**
	E-mail:	**Mark.heath@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Governance Committee, summarising:

- progress in implementing the audit plan;
- internal audit reviews in progress;
- audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified; and
- the status of 'live' reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control

Appendix 1 summarises the activities of internal audit for the period to December 2013.

RECOMMENDATIONS:

(i) to note the Internal Audit Progress report to the period December 2013 as attached

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Governance Committee is required to receive the Chief Internal Auditor's progress report.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The status report to the period December 2013 is attached for consideration in the appendix.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	Internal Audit Progress Report – December 2013

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	~~Yes~~/No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

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SUBJECT:	**Internal Audit: Progress Report**
MEETING:	**Governance Committee**
DATE OF MEETING:	**03 February 2014**
REPORT OF:	**Head of Southern Internal Audit Partnership**
REPORT DATE:	**December 2013**

1 Opinion definitions

Opinion	Framework of governance, risk management and management control
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate Assurance	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited assurance	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

Agenda Item 8
Appendix 1

2 Status of 'live' reports:

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Street Cleansing and Parks & Open Spaces	19/11/12	Economic Development & Environment	Adequate	Adequate	14 (0)	0 (0)	13 (0)	1 (0)
Teachers Pensions	13/12/12	People	Adequate	Adequate	**8 (8)**	**0 (0)**	**8 (8)**	**0 (0)**
Heating Charges	17/12/12	Economic Development & Environment	Adequate	Adequate	6 (1)	0 (0)	5 (1)	1 (0)
Great Oaks School	21/12/12	People	Adequate	Adequate	**15 (1)**	**0 (0)**	**15 (1)**	**0 (0)**
Cash Collection & Banking	21/01/13	Corporate Services	Limited	Adequate	12 (5)	0 (0)	7 (5)	5 (0)
Sustainability (Use of Natural Resources / Carbon Reduction)	15/03/13	Economic Development & Environment	Limited	Adequate	11 (9)	0 (0)	9 (8)	2 (1)
Estate Regeneration	26/04/13	Economic Development & Environment	Adequate	Adequate	21 (16)	0 (0)	20 (16)	1 (0)
Development Management	26/04/13	Economic Development & Environment	Limited	Adequate	7 (4)	0 (0)	5 (4)	2 (0)
Locality Teams – Statutory Schools Work / Providers	29/04/13	People	Substantial	Substantial	**2 (1)**	**0 (0)**	**2 (1)**	**0 (0)**
Payroll	22/05/13	Corporate Services	Adequate	Adequate	7 (2)	0 (0)	6 (1)	1 (1)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Joint Commissioning - Children and Families	30/05/13	Corporate Services	Limited	Limited	13 (13)	0 (0)	1 (1)	12 (12)
Council Tax & NNDR	07/06/13	Corporate Services	Substantial	Substantial	2 (0)	1 (0)	1 (0)	0 (0)
Quality Assurance	18/07/13	People	Adequate	Adequate	15 (9)	2 (2)	11 (9)	2 (2)
Code of Conduct Members & Officers)	26/07/13	Corporate Services	Adequate	Adequate	**3 (1)**	**0 (0)**	**3 (1)**	**0 (0)**
IT Infrastructure & Security	13/08/13	Corporate Services	Adequate	Adequate	**3 (1)**	**0 (0)**	**3 (1)**	**0 (0)**
Street Lighting PFI	09/09/13	Economic Development & Environment	Adequate	Adequate	**6 (0)**	**0 (0)**	**6 (0)**	**0 (0)**
Portage	13/09/13	People	Adequate	Adequate	6 (0)	2 (0)	2 (0)	2 (0)
Grants to voluntary organisations	10/10/13	Economic Development & Environment	Adequate	Adequate	3 (2)	1 (0)	2 (2)	0 (0)
Human Resources	14/10/13	Corporate Services	Adequate	Adequate	**12 (6)**	**0 (0)**	**12 (6)**	**0 (0)**
Neighbourhood wardens	22/10/13	People	Adequate	Adequate	7 (2)	3 (0)	0 (0)	4 (2)
School standards	25/10/13	People	Adequate	Adequate	5 (0)	5 (0)	0 (0)	0 (0)
Parking Services	13/11/13	Economic Development & Environment	Adequate	Adequate	1 (0)	0 (0)	0 (0)	1 (0)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Contract Management	04/12/13	Corporate Services	Limited	Limited	Reference section 3			
Teachers Pensions	07/01/14	Corporate Services	Adequate	Adequate	**5 (5)**	**0 (0)**	**5 (5)**	**0 (0)**

3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

Audit title: Contract Management (Supplier Relationship Management Tool)

Original published audit opinion: Limited

Current audit opinion: Limited

Executive summary:

The Supplier Relationship Management (SRM) tool was introduced to provide consistency in monitoring performance of contracts by the services. The SRM enables a focus on performance monitoring arrangements that are agreed with the supplier, based upon the specifications developed by the services, to enable both parties to understand their responsibilities

The SRM tool was introduced during 2011 and is currently being trialled on a number of contracts. Training has been provided for the contract managers included on the pilot, however, associated guidance is not comprehensive and has not been reviewed since SRM was introduced.

Documents within SRM enable the contract managers to review the performance of the contracts but not all of the documents were being fully completed, by the contract managers.

The SRM has a wide degree of flexibility however; this is not suited to a regular quarterly review of performance or indeed cross supplier

comparisons. Supplier performance reports are passed to the Head of Property and Procurement for review, however there was no demonstrable evidence to substantiate actions taken by the services thereby undermining any meaningful analysis in terms of reviewing under or deteriorating performance. The SRM toolkit, if used appropriately, has the capability to enhance contract management, however, further guidance is required to support contract managers in ensuring the tool is optimised and that the Council maximise value through their contractual arrangements
Management response: Previous mitigation against identified risks in respect of contract management, through attendance and raising awareness at Directorate Management Teams or through training have proved ineffective and there is an acknowledgement that contract management is often a ‘bolt-on’ to existing responsibilities for staff who may not retain the requisite skills or capacity to effectively fulfil the role. In conjunction with a radical review of the way the Council procures, the Head of Property, Procurement and Health Safety anticipates identifying savings that could be achieved through effective contract management, the objective being that such savings would more than adequate to subsidise a professional contract management service on behalf of the Council. This will be a significant piece of work requiring changes to how the Council currently develops it specifications, quality requirements, tender evaluation process, use of KPI’s, service performance requirements etc. There is no current timelines for implementation, however, this is viewed as a high priority and timeframes will be agreed as part of the business case.

4 Internal Audit Performance

The internal audit service is measured against the following key performance targets:

Performance Targets – 31 December 2013		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2012/13 c/f)	95	73
Compliant with the Public Sector Internal Audit Standards 2013	Yes	Yes
% of positive customer responses to Quality Appraisal Questionnaire	90	97.8

5 Planning and Resourcing

The internal audit plan for 2013/14 was approved by the Council's Management Team and the Governance Committee in April 2013. The audit plan will remain fluid to ensure internal availability to react to the changing needs of the Council. Progress against the plan is detailed within section 7

6 Fraud and Irregularities

Within the year we have assessed and where appropriate, advised, investigated or supported the investigation of four allegations of fraud, corruption or improper practice. Of these:

- 2 were investigated resulting in disciplinary action;
- 1 officer resigned during the course of the investigation;
- 1 remains on-going.

We have also continued to provide advice on other cases where required.

7 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
2013 / 2014 Audit Plan (including carry forward)					
Health and Safety	✓	✓	✓	✓	
Contract Management	✓	✓	✓	✓	04/12/13
Project management	✓	✓	✓	✓	
Accounts Receivable	✓	✓	✓	✓	
Portage	✓	✓	✓	✓	02/09/13
Contribution & Charging (Non-Residential Care Contributions)	✓	✓	✓	✓	10/07/13
Street Lighting PFI	✓	✓	✓	✓	09/09/13
Transformation	Scoping				

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Partnership arrangements	Scoping				
Information Governance					
Human Resources	✓	✓	✓	✓	14/10/13
Human Resources (2nd audit)	Scoping				
Gas Safety – Procurement	✓	✓	✓	✓	
Business Continuity & Emergency Planning	✓	✓			
Annual Governance Statement	N/A	✓	✓	✓	03/07/13
Precautions against fraud	N/A	✓	✓	N/A	31/05/13
National Fraud Initiative	N/A	✓	N/A	N/A	N/A
Risk Management	✓	✓	✓		
Effectiveness of the Role of Internal Audit	✓	✓	✓	✓	05/12/13
Housing rent collection	✓	✓	✓		

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Teachers Pensions - annual claim (TR17)	✓	✓	✓	✓	15/01/13
Employers Pensions (teachers and LGPS)	✓	✓			
Income Collection and Transactions	✓	✓	✓		
Accounts Payable	✓	✓	✓	✓	
Debtors process review	✓	✓			
NNDR	✓	✓	✓		
Payroll	✓	✓	✓		
Housing Benefits (including Council Tax Reduction Scheme)	✓	✓	✓	✓	23/12/13
Application support	✓	✓	✓		
Change control	✓				
Capacity planning & management	✓				
Inventory Management	✓	✓	✓	✓	

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Grants to voluntary organisations	✓	✓	✓	✓	10/10/2013
Across Schools Thematic Review 1 (payroll)					
Across Schools Thematic Review 2 (pupil absence management)					
General school reviews – Bevois Town Primary School	✓	✓	✓		
General school reviews – Fairisle Infant & Nursery School	✓	✓	✓	✓	
General school reviews – St Monica Juniors	Scoping				
General school reviews – Sholing Technology College	✓	✓	✓	✓	
SFVS	✓	✓	✓	N/A	N/A
School standards	✓	✓	✓	✓	25/10/13
Data and performance management – Support Services	✓	✓	✓		
Highways	✓	✓	✓		
Itchen Bridge					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Parking Services	✓	✓	✓	✓	13/11/13
Housing Operation Transformation	Scoping				
Neighbourhood wardens	✓	✓	✓	✓	22/10/13
Transformation of city services	✓	✓	✓	✓	
European Funding	✓	✓	✓	N/A	N/A
Delivery of statutory functions - Family Centres and children centres	Scoping				
Appointeeships					
PARIS	✓	✓	Advice/Consultancy role		
Reablement	✓	✓	✓	✓	
Learning and Development	Scoping				
Fostering	Scoping				
Public Health Contracts	Scoping				

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Local Safeguarding Childrens Board	Scoping				
Public Health	Scoping				
PUSH	✓	✓	✓	✓	25/06/13
Grant Claims – BEEMS Claim 2	✓	✓	✓	N/A	N/A
Grant Claims – BEEMS Claim 3	✓	✓	✓	N/A	N/A
Southampton Day Services – Freemantle Community Centre	✓	✓	✓	✓	

DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		ANNUAL GOVERNANCE STATEMENT 2013-14 AND REVIEW OF 2012-13 ACTIONS		
DATE OF DECISION:		3 FEBRUARY 2014		
REPORT OF:		HEAD OF FINANCE AND IT		
CONTACT DETAILS				
AUTHOR:	**Name:**	Peter Rogers	**Tel:**	023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk		
Director	**Name:**	Andy Lowe	**Tel:**	023 8083 2049
	E-mail:	andrew.lowe@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

RECOMMENDATIONS

(i) To note and approve the assurance gathering process to support the development of the 2013-14 Annual Governance Statement (Appendix 1);

(ii) To note the content of the Annual Governance Statement 2012-13 Action Plan - Status Report (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1. The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. No alternative options have been considered

DETAIL (Including consultation carried out)

3. Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.

4. The purpose of the AGS, which is published with the statement of accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.

5. The AGS is produced following a review of the council's governance arrangements. The review requires the systems and processes that comprise the Council's corporate governance arrangements to be brought together and reviewed.

6. The 'assurance gathering process' is based on CIPFA/SOLACE guidance and comprises an overall 'Assurance Framework document' together with 'Annual Governance - Self Assessment Statement' completed by each Director. Both the documents cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.

7. The process to support the development of the AGS is largely unchanged on the basis that that the current process is considered to be robust and noting that External Audit, who also review the completeness of AGS as part of their annual programme of work, commented that they "did not identify any areas of concern".

8. The only exception is that a draft of the AGS will be presented to the Governance Committee at the July meeting, in addition to the final draft document being presented at the September meeting for approval. This reflects a recommendation made by CIFPA that *"the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The statement must be current at the time it is published, so the audit committee* [Governance Committee] *should review the statement again in September".*

9. The AGS itself is developed by a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer and Chief Internal Auditor) who are responsible for evaluating the assurances and supporting evidence provided, prior to drafting the AGS.

10. The draft AGS will be presented to the Governance Committee for review and approval prior to being forwarded to the Chief Executive and Leader of the Council for signing.

RESOURCE IMPLICATIONS

Capital/Revenue

11. None

Property/Other

12. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

13. The Accounts and Audit (England) Regulations 2011 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those

responsibilities.

Other Legal Implications:

14. None

POLICY FRAMEWORK IMPLICATIONS

15. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	AGS 2013-14 – Process and timelines
2.	AGS 2012-13 Action Plan - Status Report

Documents In Members' Rooms

1.	None.

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

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Agenda Item 9

Appendix 1

Annual Governance Statement 2013/14 - Process and timelines

No	Action	Meeting / Target Date	Responsibility
1	Report to Governance Committee to outline the assurance gathering process to support development of the 2013-14 AGS.	3rd Feb 2014	Governance Committee
2	Review and update the 'AGS - Self Assessment Statement' document to ensure that is remains aligned with good practice.	3rd - 24th February 2014	Risk & Assurance Manager
3	Review of the Code of Corporate Governance against current CIPFA/SOLACE guidance.	3rd -24th March 2014	Risk & Assurance Manager
4	Issue 'AGS Self Assessment Statements' to Directors for completion	1st April 2014	Risk & Assurance Manager
5	Return of completed 'AGS Self Assessment Statements' and completion of Assurance Framework document.	25th April 2014	Council Management Team
6	Validation of self assessments by Internal Audit.	28th April - 19th May 2014	Chief Internal Auditor
7	Draft AGS developed in consultation with Controls Assurance Management Group . NOTE: further ad hoc meetings may be required and will be arranged as necessary.	2nd June 2014	Controls Assurance Management Group
8	**Report to Governance Committee to review the draft 2013-14 AGS. [NEW]**	July 2014 (TBC)	**Governance Committee**
9	Submission of draft of AGS to Council Management Team.	September 2014 (TBC)	Council Management Team
10	Final draft AGS to CAMG for noting.	September 2014 (TBC)	Controls Assurance Management Group
11	Report to Governance Committee for final approval of AGS.	September 2014 (TBC)	Governance Committee
12	Signed by Chief Executive and Leader of the Council.	30th September 2014	Risk & Assurance Manager

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ANNUAL GOVERNANCE STATEMENT 2012-13 : Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2012-13:

	Governance Issue	Agreed Action	Target Date	Responsible Officer	Status	Comments
1.	The Council's Anti Fraud and Corruption Policy and Strategy has not been updated since 2008.	Anti Fraud and Corruption Policy and Strategy to be reviewed and updated to reflect current good practice together with a commitment for future periodic reviews. Appropriate arrangements to be made to communicate the updated Policy and Strategy.	Oct 2013	Director of Corporate Services	**COMPLETED (Dec 2013)**	A revised and updated 'Anti Fraud and Anti Corruption' strategy and policy statement was approved by the Governance Committee at the 16th December meeting.
2.	Performance management reporting arrangements need to capture and reflect the most up to date information or position and to enable improvement in outcomes.	A review of performance management arrangements has been undertaken and a new approach, in the form of a monthly 'scorecard' format, is being developed and will be in place in December.	Dec 2013	Assistant Chief Executive	**Open**	Following the appointment of a part time Project Manager, the Policy and Performance Review is underway and the new performance system will be in place in April for 2014/15.
3.	Reduced capacity and resilience within the senior management team.	Review of senior management structure and capacity will follow the new Chief Executive appointment in June 2013.	Dec 2013	Chief Executive	**COMPLETED (Sept 2013)**	The new Chief Executive was appointed in July 2013, and in September 2013, the Chief Executive formalised 2 existing roles and changed their job titles to reflect the due importance of these posts in the organisation. They are the Chief Financial Officer, and the Assistant Chief Executive.

Agenda Item 9
Appendix 2

4.	Development of a co-ordinated and consistent approach to workforce learning and development including corporate induction and succession planning.	Delivery of the workstreams as part of the overall Workforce Plan	Mar 2014	Director of Corporate Services	**Open**	There is an improved means of delivery in place as part of Capita contract renegotiation. It is intended to have an initial prioritised plan for council wide learning and development, commensurate with available spend, by April 2014.
5.	The provision and access to internal/external training and development for members should be on a more structured basis and the scope and level of member engagement with internal learning and development opportunities needs to be reviewed.	A review of the approach and delivery of Member learning and development opportunities is being undertaken by the Governance Committee in consultation with Group Leaders and the Members User Group.	Sept 2013	Director of Corporate Services	**COMPLETED (Sept 2013)**	A new Member Development Strategy was endorsed by the Governance Committee at the 23rd September 2013 meeting.
6.	Understanding of and compliance with the council's 'Corporate Standards' by relevant officers.	A review of the current provision is being undertaken with a view to introducing a revised training programme for officers.	Oct 2013	Director of Corporate Services	**Open**	Preparation is still in hand. Due to competing priorities and staff resignations the implementation may be delayed until the Summer 2014.

DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 TO 2016/17		
DATE OF DECISION:		3 FEBRUARY 2014 12 FEBRUARY 2014		
REPORT OF:		CHIEF FINANCIAL OFFICER		
CONTACT DETAILS				
AUTHOR:	**Name:**	Alison Chard	**Tel:**	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		
Director	**Name:**	Andrew Lowe	**Tel:**	023 8083 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2013/14 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

As at 31 March 2014 the Council's gross external debt is expected to be £361M and the total value of investments is forecast at £43M. The Balance Sheet position as at 31 March 2013 showed the value of debt as £384M and the value of investments as £69M.

The Council's Capital Financing Requirement (CFR), which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure which has not yet been paid for from either revenue or capital resources, is a key driver of the borrowing strategy. The projected CFR for 31 March 2014 is £430M, of which £263M is attributed to the General Fund and the remaining £167M to the Housing Revenue Account (HRA).

The Council's current strategy is to minimise borrowing to below its CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources which include the Public Works Loan Board (PWLB), commercial banks, the European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits, the Authorised Limit, (a statutory limit that sets the maximum level of external borrowing on a gross basis), and the Operational Boundary, (which is determined by both the estimated CFR and day to day cash flow movements). For 2014/15 the proposed Authorised Limit is £760M and proposed Operational Boundary is £750M. These are substantially higher than our anticipated actual level of debt but they allow for a full debt restructure to be undertaken if an appropriate opportunity arises, which may require taking new borrowing in advance of paying off existing loans.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are the security of invested capital, the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and the overall holding with institutions.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. Although not relevant in the present climate, in any period of significant stress in the markets, the default position will be to invest with the governments Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently, this strategy is kept under review and will be realigned, if required, in line with evolving market conditions and expectations for future interest rates.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Endorse the Treasury Management (TM) Strategy for 2014/15 as outlined in the report.

ii) Note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved by Council on 12 February 2014. Should the recommendations change, the Prudential Indicators may have to be recalculated.

iii) Note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

It is recommended that Council:

i) Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2014/15, 2015/16 and 2016/17, as detailed within the report.

ii) Approve the 2014 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 74 to 83.

iii) Approve the Annual Investment Strategy as detailed in paragraphs 36 to 50.

iv) Note that at the time of writing this report the recommendations in the Capital Programme Update report, submitted to Council on the 12 February 2014, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.

v) Continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

1. In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:
    - Treasury Management Strategy for 2014/15:
        - Borrowing – Paragraphs 24 to 33
        - Debt Rescheduling – Paragraphs 34 to 35
        - Investments – Paragraphs 36 to 50
    - Use of Specified and Non-Specified Investments – Paragraphs 45 to 49

- MRP Statement – Paragraphs 74 to 83
- Prudential Indicators – Paragraphs 86 to 99

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which are being taken at Full Council on 12 February 2014.

DETAIL (Including consultation carried out)

CONSULTATION

3. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

4. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services, (the "CIPFA TM Code"), and the Prudential Code require local authorities to determine a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS), which is a requirement of the Department for Communities and Local Government's (CLG) Investment Guidance.
6. As per the requirements of the Prudential code, the Authority has adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and has subsequently agreed further updates.
7. The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:
    - Liquidity Risk (Inadequate cash resources)
    - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
    - Inflation Risks (Exposure to inflation)
    - Credit and Counterparty Risk (Security of Investments)
    - Refinancing Risks (Impact of debt maturing in future years)
    - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

8. The purpose of this TMSS is to allow Council to approve:
   - Treasury Management Strategy for 2014/15
   - Annual Investment Strategy 2014/15
   - Prudential Indicators for 2014/15, 2015/16 and 2016/17
   - 2014 MRP Statement

9. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 2) has also been taken into account in developing this strategy

10. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

11. Some alternative strategies, with their financial and risk management implications, are listed below.

Options	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

12. All treasury activity will comply with relevant statue, guidance and accounting standards.

Economic Background

13. The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates. The unemployment rate has fallen to 7.1% based on the latest figures published for November 2013. Whilst this figure is very close to the 7% threshold, the threshold is only one element which the MPC will consider in taking decisions around the need to raise interest rates. At the present time other market conditions do not suggest that a rate rise is imminent.

14. The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

15. Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

16. In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook

17. The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will likely suffer a haircut on its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Outlook for Interest Rates

18. The forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the

forecast horizon. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.70% and 1.10%.

A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix 2.

BALANCE SHEET AND TREASURY POSITION

19. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.

20. As at the 31 December 2013 the Authority had £356M of debt (£282M borrowing plus £74M other long term liabilities) and £52M investments which is set out in further detail in Appendix 1.

21. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2016/17. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.

22. The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown below.

	31/03/2014 Estimate £M	31/03/2015 Estimate £M	30/03/2016 Estimate £M	31/03/2017 Estimate £M
General Fund CFR	**263**	**261**	**255**	**245**
Housing CFR	**167**	**185**	**185**	**191**
Total CFR	**430**	**446**	**440**	**436**
Less Other Long Term Liabilities	(78)	(82)	(80)	(76)
Borrowing CFR	**352**	**364**	**360**	**360**
Less External borrowing	(283)	(272)	(260)	(248)
Internal (over) borrowing	**69**	**92**	**100**	**112**
Less Usable Reserves and Net Creditors	(83)	(66)	(54)	(47)
Net Borrowing Requirement / (Internal Borrowing Capacity)	**(14)**	**26**	**47**	**65**

23. In order to demonstrate the Authority's need to borrow the table above reflects the increased capital borrowing and projected CFR as a result of the proposed capital programme and forecast fall in balances but does not include expected borrowing.

BORROWING STRATEGY

24. The Authority is forecast to hold £283M of loans, a decrease of £19M on last year (£302M), as part of its strategy for funding previous years' capital programmes. The Authority expects to borrow up to £36M in 2014/15 to fund the capital programme (£23.5M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £760M.

25. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

26. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

27. By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next two to three years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

28. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

29. The approved sources of long-term and short-term borrowing are:

- PWLB
- Local authorities
- Any institution approved for investments
- Any bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except Hampshire County Council)
- Capital markets bond investors (stock issues, commercial paper and bills)
- Special purpose companies created to enable joint local authority bond issues.
- Leasing

30. The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance,

such as local authority loans and bank loans, that may be available at more favourable rates.

31. The Authority has £9M exposure to LOBO loans all of which can be “called” within 2014/15.

    A LOBO is called when the Lender exercises their right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. Although unlikely in the low interest rate environment LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender’s discretion. Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

32. The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.5%) between the variable rate and the 30 year fixed maturity will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

33. The Council has exposed itself to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that the Council must monitor markets to ensure it is not caught out. During 2014/15 the Council will continue to review and take action as necessary to lessen this risk through a balanced combination of:

    - longer term fixed maturity loans,
    - medium term Equal Instalment of Principle (EIP) loans which are currently cheaper than longer term fixed,
    - longer term PWLB variable loans which have the option to be fixed at very short notice for a small fee and
    - variable rate investments to take advantage of increasing interest rates, mainly through the use of money market funds (MMF).

    In order to mitigate these risks further, the Council approved the creation of an Interest Equalisation Reserve in 2009. At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. In achieving this, the Council has exposed itself to short term variable interest rate risk and whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. It was therefore recommended that an Interest Equalisation Reserve be created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. The Reserve will be maintained at an appropriate level to protect the Council from future increase in debt charges where it is prudent to do so. The level of the reserve will be reviewed over the next twelve months.

DEBT RESCHEDULING

34. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

35. Borrowing and rescheduling activity will be reported to the Governance Committee in the Annual Treasury Management Report and the mid year update. Regular treasury management reports will also be presented as part of quarterly monitoring to Cabinet.

INVESTMENT POLICY AND STRATEGY

36. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £51M and £116M, and is expected to be maintained between £30M and £50M in the forthcoming year. This is lower than previous years due to falling balances plus the decision to unwind the rolling programme of yearly investments. This decision followed the implementation of the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive that include bail-in provisions that could result in a lower likelihood that the UK and other governments will support failing banks.

37. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. The Authority may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Lower of 10% of overall balances or £10M	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Co-operative Bank plc		£1M	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		Lower of 10% of overall balances or £10M	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£1M each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£1M each	5 years
UK Building Societies without credit ratings		£1M each	1 year
Money market funds and other pooled funds		Lower of 10% of overall balances or £10M	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser		£1M each	3 months
		£1M each	1 year
		£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets

** but no longer than 2 years in fixed-term deposits and other illiquid instruments*

*** but no longer than 5 years in fixed-term deposits and other illiquid instruments*

Appendix 3 gives further information regarding the type of investment listed above.

38. Following the implementation of the EU Bank Recovery and Resolution Directive there is a lower likelihood that the UK and other governments will support failing banks, despite this, there is no intention at this stage to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

39. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

40. Any institution will be suspended or removed should any of the factors identified give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

41. The Authority banks with the Co-operative Bank which at the current time does not meet the Authority's minimum credit criteria of A- (or equivalent) long term and as reported previously has been subject to financial turmoil in recent months.

As part of the rescue package agreed for the Cooperative Bank in December 2013, the bank is withdrawing from the local authority market. The Authority's contract with the Co-operative Bank ends in September 2014 and a project was already in place prior to the rescue package being agreed. This project is a joint tender with four other Local Authorities who are also with the Co-operative Bank and it is planned to move banks in October 2014 as the contract comes to a natural end.

Risk Assessment and Credit Ratings

42. The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

43. The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

44. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

45. The CLG Guidance defines specified investments as those:
   - denominated in pound sterling,
   - due to be repaid within 12 months of arrangement,
   - not defined as capital expenditure by legislation, and
   - invested with one of:
     - the UK Government,
     - a UK local authority, parish council or community council, or
     - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-Specified Investments

46. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table below.

	Cash limit
Total long-term investments	£30M
Total investments without credit ratings or rated below A-	£3M
Total investments in foreign countries rated below AA+	£5M
Total non-specified investments	**£38M**

47. The Council's current level of investments is presented at Appendix 1.

Approved Instruments

48. The Authority may lend or invest money using any of the following instruments:
    - interest-bearing bank accounts,
    - fixed term deposits and loans,
    - callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
    - callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £10M in total,
    - certificates of deposit,
    - bonds, notes, bills, commercial paper and other marketable instruments, and
    - shares in money market funds and other pooled funds.

    Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures

49. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

Liquidity Management

50. The Authority undertakes high level cash flow forecasting to determine the maximum period for which funds may be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

TREASURY MANAGEMENT INDICATORS

51. The Authority measures and manages its exposure to treasury management risks using the following indicators.

Security

52. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

53. We aim to achieve a portfolio average value weighted credit rating of A. Our financial advisors provide details on a quarterly basis which are monitored and reviewed. Our average rate as at December 2013 was A+.

Liquidity

54. The Authority has adopted a voluntary measure of its exposure to liquidity risk by

monitoring the amount of cash available to meet unexpected payments without additional borrowing. We look to take out temporary borrowing when our accessible investment balance fall below £25M.

Adoption of the CIPFA Treasury Management Code

55. The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Upper Limits for Fixed and Variable Interest Rate Exposure

56. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises, which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

	Existing level at 31/12/2013 %	2013/14 Approved %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure	84	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	16	50	50	50	50

57. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's TM strategy.

Maturity Structure of Fixed Rate borrowing

58. This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit %	Upper Limit %
Under 12 months	0	45
12 months and within 24 months	0	45
24 months and within 5 years	0	50
5 years and within 10 years	0	75
10 years and above	0	75

59. Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.

60. The table below details the level of our current debt and shows that all debt is within existing limits.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2013 £M	Average Fixed Rate as at 31/12/2013 %	% of Fixed Rate as at 31/12/2013	Compliance with set Limits?
Under 12 months	0	45	15	0.95	6.45	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	84	3.23	35.25	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	10	4.68	4.20	Yes
25 years and within 30 years	0	75	5	4.60	2.10	Yes
30 years and within 35 years	0	75	0	0.00	0.00	Yes
35 years and within 40 years	0	75	42	3.99	17.63	Yes
40 years and within 45 years	0	75	51	3.62	21.24	Yes
45 years and within 50 years	0	75	31	3.56	13.12	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			238	**3.32**	**100.00**	

Principal sums invested for periods longer than 364 days

61. The purpose of this limit is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Upper Limit for total principal sums invested over 364 days	2013/14 Approved £M	2013/14 Revised £M	2014/15 Limit £M	2015/16 Limit £M	2016/17 Limit £M
	50	30	30	30	30

OTHER ITEMS

62. There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivates

63. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
64. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
65. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
66. The local authority will only use derivatives after seeking expertise advice, a legal opinion and ensuring officers have the appropriate training for their use.

Policy on Apportioning Interest to the Housing Revenue Account

67. On 1 April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs and income arising from long-term loans, (e.g. premiums and discounts on early redemption), will be charged / credited to the respective revenue account.
68. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate.
69. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards.

The rate will be based on the average return of Government Treasury Bills as interest rate received on investments with commercial organisations, (e.g. banks), includes a credit risk margin, i.e. an element to compensate the lender for the risk that the borrower is unable to repay the investment. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

Training

70. CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was undertaken on the 30 January 2013. The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Treasury staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date and relevant. Details of training received are maintained as part of the performance and development process.

Treasury Management Advisors

71. The CLG's Guidance on local government investments recommend that the Investment Strategy should state whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and how the quality of any such service is controlled.

The Council has a contract in place with Arlingclose to provide a treasury advisory service and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support
- Ad hoc advice

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

Investment of Money Borrowed in Advance of Need

72. The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period.

These risks will be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £760M. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

BALANCED BUDGET REQUIREMENT

73. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

2014/15 MINIMUM REVENUE PROVISION (MRP) STATEMENT

74. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

75. The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

76. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

77. The four MRP options available are:
    - Option 1: Regulatory Method
    - Option 2: CFR Method
    - Option 3: Asset Life Method
    - Option 4: Depreciation Method

    NB *This does not preclude other prudent methods to provide for the repayment of debt principal.*

    MRP in 2014/15: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

78. Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.

79. MRP in respect of leases and Private Finance Initiative schemes brought on

Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

80. As noted above the Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP) and to submit this to Council before the start of the financial year.

The TM Strategy Report 2013/14 – 2015/16 stated that:

"Guidance relating to the regulatory method (option 1), which is used to calculate borrowing prior to the prudential regime, allows for debt transferred from Hampshire County Council (HCC) when we became a Unitary Authority in 1997 to be excluded from the MRP calculation as we are already repaying the principal element to HCC. The guidance states that the adjustment should be based on the value of the debt as at the 1 April 2004, however in order to be prudent we reduced the adjustment each year in line with the actual debt outstanding, thus increasing the amount of MRP we needed to pay in year. We are now seeking advice on whether this technical 'overpayment' can be reversed which could result in a one off credit in MRP to the General Fund."

Discussions with our Auditors are ongoing with respect to reducing our MRP charge in 2013/14 by approximately £4.5M (of which £3.9M relates to prior years) as we believe we have overprovided against our annual MRP policy of setting aside the **minimum revenue provision** required by statute / DCLG guidance.

81. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put forward for approval by the Authority at that time.

82. Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.

83. Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2014, the budget for MRP has been set as follows:

	31/03/2014 Estimated CFR £M	**2014/15 Estimate MRP £M**
Capital expenditure before 01.04.2008	94.6	3.84
Unsupported capital expenditure after 31.03.2008	90.3	3.10
Finance leases and Private Finance Initiative	61.9	1.87
Transferred debt	16.3	0.65
Total General Fund	**263.1**	**9.45**
Assets in the Housing Revenue Account	100.3	Nil
HRA subsidy reform payment	66.8	5.28
Total Housing Revenue Account	**167.1**	**5.28**
Total	**430.2**	**14.73**

MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS

84. The Chief Financial Officer will report to the Governance Committee on TM activity and performance as follows:

    (a) A mid year review against the strategy approved for the year.

    (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

85. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

PRUDENTIAL INDICATORS

Background

86. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement

87. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The CFO reports that the Authority had no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

88. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below details our expected debt position and the year-on-year change to the CFR:

	31/03/2014 Revised £M	31/03/2015 Revised £M	31/03/2016 Revised £M	31/03/2017 Revised £M
Borrowing	184.9	178.6	175.2	168.9
Finance leases and Private Finance Initiative	61.9	66.9	64.7	62.0
Transferred debt	16.3	15.6	15.0	14.4
Total General Fund Debt	**263.1**	**261.1**	**254.9**	**245.3**
HRA	167.1	184.8	185.4	190.3
Total	**430.2**	**445.9**	**440.3**	**435.6**

Capital Financing Requirement	**2013/14 Approved £M**	**2013/14 Revised £M**	**2014/15 Estimate £M**	**2015/16 Estimate £M**	**2016/17 Estimate £M**
Balance B/F	**437.0**	**433.2**	**430.2**	**445.9**	**440.3**
Capital expenditure financed from borrowing (inc PFI)					
General Fund (GF)	14.0	11.7	10.7	3.8	1.1
HRA	7.0	8.9	23.1	5.9	10.2
GF Temporary Funding (Repayment)	(6.0)	(5.9)	(3.4)	0.0	0.0
HRA Voluntary Repayment of Debt	(6.0)	(5.6)	(5.3)	(5.3)	(5.3)
GF Revenue provision for debt Redemption.	(7.0)	(9.0)	(6.9)	(7.2)	(7.4)
Movement in Other Long Term Liabilities	(2.0)	(3.1)	(2.5)	(2.8)	(3.3)
Cumulative Maximum External Borrowing Requirement	**437.0**	**430.2**	**445.9**	**440.3**	**435.6**

Estimates of Capital Expenditure

89. This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	**2013/14 Estimate £000's**	**2013/14 Revised £000's**	**2014/15 Estimate £000's**	**2015/16 Estimate £000's**	**2016/17 Estimate £000's**
General Fund	47,034	55,501	56,141	20,308	568
HRA	31,196	36,969	53,399	37,018	42,355
Total	**78,230**	**92,470**	**109,540**	**57,326**	**42,923**

90. The table below details how capital expenditure is expected to be financed and shows that the Authority cannot finance this without the need for external borrowing.

Capital Financing	2013/14 Estimate £000's	2013/14 Revised £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Capital receipts	17,758	14,888	12,277	9,675	3,655
Government Grants	30,946	37,158	33,388	11,481	127
Contributions	3,519	3,704	13,574	1,895	200
Major Repairs Allowance	17,172	16,116	17,931	18,317	18,711
Revenue	8,471	14,288	12,339	9,758	10,075
Total Financing	**77,866**	**86,154**	**89,509**	**51,126**	**32,768**
Temporary Financing	(5,860)	(6,000)	(3,400)	0	0
Unsupported borrowing	6,224	12,316	23,431	6,200	10,155
Total Funding	**364**	**6,316**	**20,031**	**6,200**	**10,155**
Total Financing & Funding	**78,230**	**92,470**	**109,540**	**57,326**	**42,923**

Ratio of Financing Costs to Net Revenue Stream

91. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme

92. This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Forecast %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	6.78%	6.98%	6.96%	8.31%	9.75%
HRA	17.51%	16.36%	16.33%	16.46%	16.46%
Total	10.43%	10.32%	10.39%	11.81%	13.17%

Incremental Impact of Capital Investment Decisions

93. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are estimated to be:

Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase / (decrease) in Band D Council Tax	(10.11)	(1.27)	0.23	0.52
Increase /(decrease) in Average Weekly Housing Rents	14.02	27.81	37.22	11.41

94. The decision to restrict the capital programme and to use capital receipts to repay temporary financing results in an incremental decrease in the Band D Council Tax for 2013/14 and 2014/15. For the HRA rent levels are set using the Governments rent restructuring formula as guidance and this is independent of the level of capital investment and borrowing. The use of the rent restructuring formula was due to end in 2016/17 but there is a proposal, out for consultation, to bring this forward by one year to 2015/16 and after that for rents to be increased by CPI plus 1% without a restructuring element. The calculation of the indicator ignores these factors.

Authorised Limit and Operational Boundary for External Debt

95. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

96. The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2013/14 Approved £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Borrowing	817	669	674	699	712
Other Long-term Liabilities	81	81	86	91	88
Total	**898**	**750**	**760**	**790**	**800**

97. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit

Operational Boundary for External Debt	2013/14 Approved £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Borrowing	794	665	672	688	693
Other Long-term Liabilities	75	75	78	82	87
Total	**869**	**740**	**750**	**770**	**780**

98. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

HRA Limit on Indebtedness

99. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing.

HRA Summary of Borrowing	2013/14 Approved £M	2013/14 Revised £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M
Brought Forward	168.8	163.8	167.15	185.1	185.9
Maturing Debt	(5.6)	(5.6)	(5.1)	(5.1)	(5.1)
New borrowing	12.5	8.90	23.06	5.86	10.17
Carried forward	**175.7**	**167.1**	**185.1**	**185.9**	**191.0**
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	**23.9**	**32.5**	**14.5**	**13.7**	**8.6**

RESOURCE IMPLICATIONS

Capital

100. The capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the Council agenda.

Revenue

101. The budget for investment income in 2014/15 is £0.2M, based on an average investment portfolio of £45M at an average interest rate of 0.5%. The budget for debt interest paid in 2014/15 is £10.3M based on an average debt portfolio of £308.2M at an average interest rate of 3.34%.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different

102. The CLG Guidance and the CIPFA Code do not prescribe any particular TM Strategy for local authorities to adopt. The CFO, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness, the Revenue implications of which have been considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the Council agenda.

Property/Other

103. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

104. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

105. None

POLICY FRAMEWORK IMPLICATIONS

106. This report has been prepared in accordance with CIPFA's Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	Existing Investment & Debt Portfolio Position and Projections
2.	Economic and Interest Outlook
3.	Approved investment counterparties
4.	Treasury Management Policy Statement
5.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 TO 2015/16 – Council 13 February 2013	

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Appendix 1

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	Current Portfolio £M		31-Mar-14 Current Estimate £M	31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M
External Borrowing:						
Fixed Rate – PWLB Maturity	139		148	184	208	223
Fixed Rate – PWLB EIP	84		81	69	58	46
Variable Rate – PWLB	35		35	35	35	35
Variable Rate – Market	9		9	9	9	9
Long Term Borrowing	**267**		**273**	**297**	**310**	**313**
Short Term Borrowing						
Fixed Rate – Market	15		10	20	30	30
Other Long Term Liabilities						
PFI / Finance leases	57		61	66	63	60
Deferred Debt Charges	17		17	16	16	15
Total Gross External Debt	356		361	399	419	418
Investments:						
Deposits and monies on call and Money Market Funds	(49)		(40)	(50)	(50)	(50)
Supranational bonds	(3)		(3)	(3)	(3)	(3)
Total Investments	(52)		(43)	(53)	(53)	(53)
Net Borrowing Position	**304**		**318**	**346**	**366**	**365**

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ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2013 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80	0.80
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Underlying Assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the

Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.

- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Quarter 1 2014. The US political deadlock over the debt ceiling will need resolving in Quarter 1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- The projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.
- Gilt yields are projected to continue on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

APPROVED INVESTMENT COUNTERPARTIES

Current Account Bank
These are not currently in use as our present providers the Co-operative Bank plc fall below investment grade rating. However a competitive tender exercise is to be held in 2014 for the provision of Authority's current accounts will be held with an institution which meets the minimum A- rating, so balances could be held up to the specified limits detailed in paragraphs 35-40 in the main report. Should the credit ratings subsequently fall below A-, the Authority may continue to deposit surplus cash with the bank providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

Registered Providers
Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Building Societies
The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds
These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods

Other Pooled Funds
For our core reserves, which are available for investments over the medium term, the Authority will consider using pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Other Organisations
The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2. Accordingly, the Council will create and maintain, as the cornerstones 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 the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5. The Council nominates Governance committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

"*The management of the Council'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.*"

2.2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.

Capital Expenditure:

Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR):

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

Capital Receipts:

Money obtained on the sale of a capital asset.

CD's:

Certificates of Deposits with banks and building societies

Comprehensive Spending Review (CSR): Comprehensive Spending Review is a governmental process in the United Kingdom carried out by **HM Treasury** to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).
Constant Net Asset Value (CNAV) These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which means that that any investment will not fluctuate in value.
Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
CPI : Consumer Price Index – the UK’s main measure of inflation.
Credit Rating: Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.
Department for Communities and Local Government (DCLG) : The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.
Federal Reserve: The US central bank. (Often referred to as “the Fed”).

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

The ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard and replaced the Claimant Unemployment Rate as the international standard for unemployment measurement in the UK.. Under the ILO approach, those who are considered as unemployed are either out of work but are actively looking for a job or out of work and are waiting to start a new job in the next two weeks. ILO Unemployment Rate is measured by a monthly survey, which is called the Labour Force Survey in United Kingdom. Approximately 40,000 individuals are interviewed each month, and the unemployment figure reported is the average data for the previous three months.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower’s so called ‘option’ is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.
Maturity: The date when an investment or borrowing is repaid.
Maturity Structure / Profile: A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Multilateral Development Banks: See Supranational Bonds below.
Non Specified Investment: Investments which fall outside the CLG Guidance for **Specified investments** (below).
Operational Boundary: This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and

(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.

Repo Rate:

The interest rate at which the central bank in a country repurchases government securities (such as Treasury securities) from commercial banks. The central bank raises the repo rate when it wishes to reduce the money supply in the short term, while it lowers the rate when it wishes to increase the money supply and stimulate growth.

Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI: Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
T-Bills: Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.
Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Variable Net Asset Value (VNAV):

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

Yield:

The measure of the return on an investment instrument.

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