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West Devon Audit Committee

West Devon Borough Council

Title:	**Agenda**
Date:	**Tuesday, 19th January, 2016**
Time:	**2.00 pm**
Venue:	**Chamber - Kilworthy Park**
Full Members:	***Chairman*** Davies ***Vice Chairman*** Moody *Members:* Jory, Watts, Stephens
Substitutes:	Councillors:
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **29th** day of **September 2015** at **10.00 am**.

Present:	Cllr M Davies (Chairman)	
	Cllr B Stephens	Cllr J B Moody
	Cllr N Jory	Cllr Watts

Substitutes: None

Officers in attendance: Finance Community of Practice Lead
Devon Audit Partnership Representative
Finance Business Partner (AW)
Case Managers, Strategy & Commissioning
Barrie Morris (Grant Thornton)

Also in attendance: Cllr Leech

***AC 13 APOLOGIES FOR ABSENCE**

There were no apologies for absence forwarded to the meeting.

***AC 14 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 28 July 2015 were confirmed and signed by the Chairman as a correct record.

***AC 15 ANNUAL GOVERNANCE STATEMENT 2014/2015**

The Section 151 Officer presented a report that asked Members to note that no changes were required to the Annual Governance Statement (AGS) 2014/15 from the version that had been considered and approved at the July 2015 Audit Committee meeting (Minute AC 10 refers).

Arising from discussions thereon:

1. Two minor amendments were brought to Members attention in respect of comments relating to land charges and adherence to the Code of Practice on Local Authority Accounting in respect of the Role of the Chief Financial Officer.

It was **RESOLVED** that Members note that no changes were required to the Annual Governance Statement (AGS) 2014/15 from the version that had been initially considered and approved at the July 2015 Audit Committee (Minute AC 10 refers).

***AC 16 ANNUAL STATEMENT OF ACCOUNTS 2014/2015**

The Section 151 Officer introduced the Annual Statement of Accounts 2014/15.

In her presentation, she confirmed that the accounts were free from error (as quoted from the Executive Summary in the presented agenda report).

It was then **RESOLVED** that approval be given to the:

1. wording of the Letter of Representation (as outlined at Appendix A of the presented agenda report) and
2. audited Statement of Accounts and Technical Appendix for the financial year ended 31 March 2015 (as outlined at Appendix B of the presented agenda report).

***AC 17 THE AUDIT FINDINGS FOR WEST DEVON BOROUGH COUNCIL**

The representative from Grant Thornton introduced the Audit Findings for West Devon Borough Council.

There were minor issues surrounding journal entries (as noted in Appendix A of the presented agenda report) but no inappropriate behaviour was found.

A minor weakness in the Council's payroll system had been found, however remedial action had since been taken this year.

The 'RAG' (Red, Amber, Green) rating was found to be 'Green' which was welcomed by the Committee.

***AC 18 UPDATE OF PROGRESS ON THE 2015-16 INTERNAL AUDIT PLAN**

The representative from Devon Audit Partnership introduced the report on the progress of the Internal Audit Plan.

It was then **RESOLVED** that the audit plan is noted.

***AC 19 ANNUAL TREASURY MANANGEMENT REPORT FOR 2014-15**

The s151 Officer introduced the Annual Treasury Management Report for 2014-15. The Committee noted the executive summary for the income from investments showed a return of 0.10% return on investments over the benchmark for 14/15.

It was then **RESOLVED** that:

1. the 2014-15 prudential and treasury indicators in the report be approved; and

2. The Annual Treasury Management Report for 2014-15 be noted.

(The Meeting terminated at 10.40 am)

Dated this 29 September 2015

Chairman

Grant Thornton

The Annual Audit Letter for West Devon Borough Council

Year ended 31 March 2015

16 October 2015

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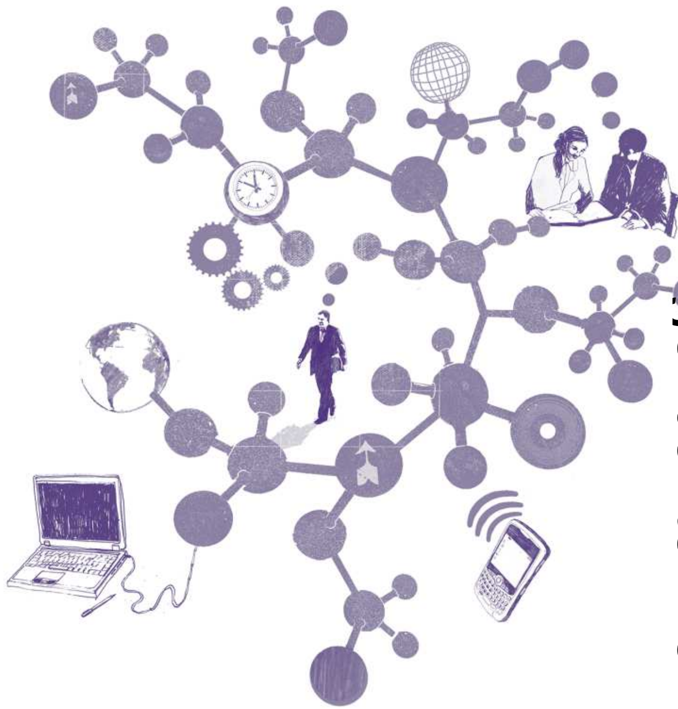

Agenda Item 5

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Devon Borough Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 28 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 29 September 2015 to the Audit Committee. The key messages reported were: • the accounts were free of significant errors; and • we did not identify any adjustments that affected the Council's reported financial position. We issued an unqualified opinion on the Council's 2014/15 financial statements on 29 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements gave a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.
Value for Money conclusion	We issued an unqualified Value for Money conclusion for 2014/15 on 29 September 2015. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of housing benefit grant claim	We have not yet completed our work on the certification of the Council's 2014/15 housing benefit grant claim. The deadline for completion is 30 November 2015. We anticipate that this deadline will be met.
Audit fee	Our fee for 2014/15 was £52,528, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/responsible officer	Due date
1.	The Council's journal procedures should be improved to ensure that: • All journals have a narrative description to explain the nature and purpose of the transaction • Journals should be raised and authorised by separate individuals. • The Finance Community of Practice Lead should not be able to process journals.	Medium	• Authorisation: Once the two council's operations were harmonised, controls were enhanced to prevent this occurring. • Narrative: Management will amend the software journal entry procedures to ensure that all journals have a notes facility attachment explaining the reason for the journal. • The Finance Community of Practice Lead no longer has the facility to input journals.	• Now addressed • Finance Community of Practice Lead.(September 2015) • Now addressed

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	52,528	52,528
Housing benefit grant certification fee	7,120	7,120
Total audit fees	**59,648**	**59,648**

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit related service	Nil

Reports issued

Report	Date issued
Audit Plan	28 April 2015
Audit Findings Report	29 September 2015
Financial Resilience	November 2015
Certification Report	December 2015
Annual Audit Letter	16 October 2015

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11 December 2015

Dear Lisa

Certification work for West Devon Borough Council for year ended 31 March 2015

We are only required to certify one claim submitted by West Devon Borough Council ('the Council'). This certification is required to take place by 30 November 2015, and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified the Housing Benefit return for the financial year 2014/15 which included expenditure of £14.1 million. Further details of our certification work is set out in Appendix A.

There were no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £7,120. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of Housing Benefit return certified for 2014/15

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£14,066,347	No	N/A	No	None

Appendix B: Fee for 2014/15 certification work

Return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	7,500	7,120	7,120	0	None

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cutting through complexity

External audit progress report and technical update

West Devon Borough Council

December 2015

External audit progress report and technical update – October 2015

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

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KPMG resources

Area	Comments
Governance arrangements work over the Better Care Fund.	The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings. The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance. Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance. With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation. We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry: ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management.

KPMG resources

Area	Comments
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years	Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue. The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own. The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation’s housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt. The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England’s rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including: ▪ giving planning authorities the power to create ‘New Homes Zones’ that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; ▪ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; ▪ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; ▪ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ▪ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need–programme-2015.aspx

KPMG resources

Area	Comments
Better Care Fund Support Programme	The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence (‘SCIE’), PPL Consulting and the Berkeley Partnership. The focus has been on practical implementation support to deliver better care for the local population. Support has included: ■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. A number of ‘How to guides’ have been developed on how to: ■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics: ■ Joint working; ■ Section 75 Arrangements – Pooled and unpooled budgets; and ■ Data sharing: More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp

KPMG resources

Area	Comments
KPMG publication titled: Value of Audit – Perspectives for Government	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

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Technical update

Technical update

Area	Level of impact	Comments	KPMG perspective
New local audit framework	**Medium**	The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20. DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies. NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.	***We understand guidance is being prepared by CIPFA on the request of the NAO.*** ***We will also be preparing a briefing note for clients.***
CIPFA survey on infrastructure assets	**Medium**	On 26 August CIPFA sent a letter to Treasurers' Societies and Directors' of Finance groups for onward circulation to authorities drawing attention to CIPFA's survey to assess the readiness of bodies for the introduction of depreciated replacement cost (DRC) for highways infrastructure assets in 2016/17. The letter from CIPFA's Chief Executive is available here: www.cipfa.org/~/media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/150826-tia-survey-letter-signed-rw.pdf?la=en The online survey tool can be found here: www.surveymonkey.com/r/NGC8MXH CIPFA is encouraging responses from both accountants and highways engineers, either jointly or separately. The letter has also been sent to the Highways Asset Management and Financial Information Group (HAMFIG) to bring this to the attention of relevant authorities' highways engineers.	***The Committee may wish to enquire of officers whether the online survey has been completed and any gaps be amended in the project plan***

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Infrastructure assets Page 24	**Medium**	CIPFA/LASAAC, the group that produce the *Code of Practice for Local Authority Accounting*, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015. The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include: ■ roads, bridges, roundabouts and traffic calming measures; ■ footways, footpaths and cycle tracks; ■ tunnels and underpasses; and ■ water supplies and drainage systems, as they support the assets identified above. Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods. CIPFA have issued a *Code of Practice on Transport Infrastructure Assets* which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website. Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015. The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.	***The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.***

Technical update

Area	Level of Impact	Comments	KPMG perspective
The Local Government Association's 2015 Spending Review submission Page 25	**Medium**	In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament. The submission focusses on five core issues originally highlighted in A Shared Commitment, published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector. The LGA believes the Spending Review should: ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period.	***The Committee may wish to seek assurances that the impact for their Authority is understood.***

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015	Low	With effect from 1 April 2015, certain provisions of the *Local Audit and Accountability Act 2014* (LAAA 2014) came into force and are applicable to auditors' work for the year 2015/16. Whilst the *Audit Commission Act 1998* is transitionally saved for audit work on 2014/15, insofar as auditors are engaged in planning work for 2015/16, or possibly considering public interest reports (PIRs) to be made during 2015/16, they need to be aware of the provisions of LAAA 2014 that are already in force. Provisions affecting auditors' work with effect from 1 April 2015 are: ***1) New duty to publish PIRs on audited bodies' websites*** Under the new audit regime, there is an emphasis on the publication of relevant information on the relevant authority's website. The following provisions are relevant to auditors carrying out work on 2015/16 if they decide to issue a public interest report during the audit. Under Schedule 7 LAAA 2014, the following matters must be published on the relevant authority's website (if it has one): ■ PIRs (relating to the relevant authority or a connected entity); ■ notice of a meeting to consider a PIR/written recommendation; and ■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation. Where the relevant authority does not have a website, it is instead generally required to make the relevant publication "in such manner as it thinks is likely to bring the notice or report to the attention of persons who live in its area". This could be, for example, in a local newspaper (as was required in certain cases under the previous legislation).	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

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Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued) Page 27	Low	***2) Prohibition on disclosure*** The prohibition against disclosure that was previously to be found in section 49 of the *Audit Commission Act 1998* has been repealed and replaced by provisions in Schedule 11 of LAAA 2014. This change has not been transitionally introduced and auditors and local authority bodies need to be aware that this applies to all audits, irrespective of the year. Thus, any reference to the prohibition against disclosure needs to be to Schedule 11 and not section 49. There are no material differences between the two sets of provisions. ***3) Connected entities*** LAAA 2014 introduces a new concept into the audit regime, "connected entities". Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts. The full definition of "connect entities" is set out in paragraph 8 of Schedule 4 LAAA 2014. For the purposes of this Act, an entity ("E") is connected with a relevant authority at any time if E is an entity other than the relevant authority and the relevant authority considers that, in accordance with proper practices in force at that time: ■ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts1 for the financial year in which that time falls; ■ the relevant authority's share of the financial transactions, reserves, assets and liabilities of E is to be consolidated into the relevant authority's statement of accounts for that financial year; or ■ the relevant authority's share of the net assets or net liabilities of E, and of the profit or loss of E, are to be brought into the relevant authority's statement of accounts for that financial year.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	Low	***3) Connected entities (continued)*** Authorities have a number of duties in relation to their connected entities under LAAA 2014 beyond those which are expanded on below: ▪ Auditors have a right to access documents (at all reasonable times) relating to connected entities, as well as those relating to the "parent" relevant authority. The auditor can inspect, copy or take away documents. The auditor can also require people who are in possession or are accountable for the document (or have been in the past) to provide the auditor with any information or explanation that may be needed, and can require a meeting with such persons. Where a document is stored electronically, the auditor can require assistance from the relevant person at the connected entity or relevant authority in accessing the document. The connected entity must provide the auditor with such facilities and information as are reasonably required to carry out the audit functions. ▪ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: – any persons elected or appointed to an entity; – any employee of the entity; and – an auditor of the accounts of the entity. Many of the provisions on PIRs and written recommendations in Schedule 7 apply to connected entities. Accordingly, auditors must consider whether a PIR should be made on any matter coming to their attention during the audit and relating to the authority and/or a connected entity. Similarly, an auditor may make a written recommendation to a relevant authority relating to a connected entity.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

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Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	Low	***4) Power to call for information: exception for legally professionally privileged information*** Section 22(12) LAAA 2014 clarifies that the auditor's right to information and documents cannot be used to compel disclosure of legally privileged information. If a person would be entitled to refuse to produce documents in legal proceedings in reliance on the doctrine of legal professional privilege, they are equally entitled to refuse to provide the relevant information or documents to the auditor. This is a notable new provision and auditors will need to bear this in mind in requesting sight of an audited body's own legal advice. Any provision of such will be voluntary and cannot be compelled.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***
NAO report – Local Government New Burdens	Low	This report from the NAO considers how well central government has applied the New Burdens Doctrine. This sets out how the government would ensure that new requirements that increased local authorities' spending did not lead to excessive council tax increases. The focus of this report is more on central government but includes findings that may also be of interest to local government bodies. The report is available from the NAO website at www.nao.org.uk/report/local-government-new-burdens/	***The Committee may wish to review the report to understand what impact this could have at the local government level***
NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	Low	Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals' impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms. The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively. The report is available on the NAO website www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/	***The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.***

Area	Level of Impact	Comments	KPMG perspective
NAO report – Care Act first-phase reforms	Low	The NAO's report examines the first phase of the Department of Health's new approach to adult social care, finding that it has been implemented well, but places new responsibilities on local authorities whose core funding is being significantly reduced. This could result in their having to delay or reduce services in the short term if demand for care exceeds expectations, presenting a risk to VFM which needs to be managed. Key findings within the report include: ■ The *Care Act* will increase demand for assessments and services at a time when local authority provision has been falling and the number of people in need is rising. ■ The Department's innovative joint governance with the sector has provided support to implement this challenging legislation. It has provided guidance materials and will give extra support to local authorities. ■ The Department's tight time frame for the sector to act on final guidance and funding allocations has inhibited local implementation planning in some areas. ■ Despite the challenging timetable, of local authorities with adult social care responsibilities, 99% were confident that they would be able to carry out the Care Act reforms from April 2015. However, it will take longer to change the culture. ■ The Department might have underestimated the demand for assessments and services for carers. ■ The Department has learned from the problems it encountered in modelling the cost of Phase 1 and has improved its approach for Phase 2. ■ There is variation in the extent to which individual councils might have been over or underfunded. ■ A significant proportion of the funding which the Department is providing for the Care Act's new burdens is not new money. The Department assumes that £174 million (40%) of Care Act funding will come through the Better Care Fund, from money previously allocated to clinical commissioning group budgets and existing local authority capital grants. ■ If costs exceed expectations, pressures will fall first on individual local authorities. The Department may not have sufficient information and does not have a contingency fund to avoid impacts on services. The full report is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms/	***The Committee may wish to seek assurances the issues raised in the report are understood and plans in place address the likely impact at their Authority.***

Technical update

Area	Level of Impact	Comments
Care Act first-phase reforms – local experience of implementation	**For Information**	This report has been published by the National Audit Office and complements its earlier report on central government's approach to the Care Act first-phase reforms. This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders. The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/
Proposed changes to business rates and core grant	**For Information**	The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that "the way this country is run is broken". Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at 2p on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

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Appendix

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	TBC
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2016	TBC
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council’s value for money arrangements.	September 2016	TBC
Completion			
Auditor’s report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC

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Appointing your external auditor

Considerations for the local government sector

November 2015

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Agenda Item 9

Appointing your external auditor

Background

In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

The Audit Commission closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there is an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.

A consultation exercise with key stakeholder groups has recently been concluded on whether, and if so for how long, to extend these contracts. The Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. Contracts for NHS bodies will not be extended.

What does this mean for your organisation?

This decision means that you will assume the power to appoint your external auditor from the 2018/19 financial year onwards. This will be the first time you have made such an appointment. External auditors provide an important professional service and play a critical role in the stewardship of public spending, so it is vital that this new decision making power is exercised after careful consideration on how to proceed. Whilst you have different options open to you on how to approach this new power, you will need to comply with some specific requirements.

What should local authorities be considering?

In deciding what to do there are a number of considerations.

Do your current external auditors provide you with a good service?	If yes, do you need to change? If no, now you have an opportunity to do something about it.
How could we procure an external audit service to ensure we get best value?	You will have a number of options on how and when to procure your external audit service – these are summarised later in this document. Given the range of options it will be important to consider the best approach for your organisation.
What do we need to do before we start a procurement process?	The new regulations require you to have an Audit Panel, which will be responsible for recommending who your external auditor should be. This Panel must include a majority of independent (i.e. not elected) members and an independent chair. It makes sense for the Panel to have links with your audit committee.
When do we need to undertake a procurement exercise?	The regulations require you to have appointed your external auditor by 31 December in the year preceding the year of audit. As 2018/19 is the first year of these new arrangements, you will need to have appointed your auditor by 31 December 2017. You will need to undertake whatever procurement process you follow in good time – sometime between the Spring and Autumn of 2017. And before doing that you will need to have established your Audit Panel – by early 2017 would be sensible.
Who can I appoint to be our external auditor?	You will only be able to appoint an audit firm that has been authorised by the ICAEW to undertake 'local audit work'. Local government auditing is highly specialised and you will need to ensure that your auditor has the necessary capability, experience and capacity to fulfil the statutory duties of a local government auditor.

Appointing your external auditor

Procurement options

Although local government bodies will all assume the same power to appoint their external auditor, it is likely that various options will be followed on how they go about doing this. The main options are set out below.

Re-appoint incumbent auditor	One option might be to continue with your current audit provider for a short period, say between one and three years. This would delay testing the market, although you could benchmark proposed fees for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and also avoid the 'rush to market' as large numbers of local authorities undertake procurement exercises within a short period of time, allowing you to procure later in a more settled audit market.
Stand-alone tendering	As with any other service, you could run your own procurement process. This allows complete autonomy over how and when you want this to be done, although you will need to ensure you follow the Regulations and consider any guidance issued by DCLG or other relevant bodies. However, you should consider whether you will have sufficient purchasing power on your own to obtain best value.
Combined procurement	You could join together with one or more neighbouring authorities to undertake a collective procurement exercise. This would enhance your purchasing power, but would diminish your autonomy over the process and you would need to consider how to retain sufficient sovereignty over decision making and whether this might complicate auditor independence considerations.
Existing frameworks	You could use one of the many existing government or public sector frameworks. These list firms who have already been shortlisted and therefore might speed up the process. You will need to ensure that the firms on any framework have been authorised by the ICAEW for local audit work, however.
Sector led procurement	The new audit legislation allows for a sector-led body (referred to as a 'specified person' in the Regulations) to undertake a bulk procurement process. If such an organisation emerges then this option provides an administratively easy route and would most likely have the greatest element of specialist audit procurement expertise. It would also provide good purchasing power, although with less autonomy than some other options, and might afford easier management of potential auditor independence issues than other combined procurements approaches. It will be the most similar option to the current arrangements.

Appointing your external auditor

What other factors should you consider?

When you are deciding who to appoint as your external auditor you will need to consider a range of factors. Key areas to consider are as follows:

- **Quality**: This is a vital consideration and should be appropriately weighted in any scoring methodology for assessing tenders. Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements.
- **Experience**: Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience. This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work.
- **Independence**: You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice. Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging (and your current auditor should not be constrained in exercising their duties by any tendering process).
- **Organisational fit**: As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people.
- **Price**: Like any other out-sourced service you need to obtain good value through a competitive audit fee. However, best value does not mean the cheapest quote. The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of your organisation, and also the requirement for your external auditor to comply with auditing standards and other statutory duties.
- **Other services**: Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform, whether that is other assurance services (e.g. certifying grant claims) or more added-value services.

What next?

There is still plenty of time before you appoint your external auditor for the first time, but there will be a long lead up to that decision. It is therefore important to think about how your organisation should approach this in good time. We would suggest that you should be developing your procurement strategy and selecting your preferred approach during 2016.

It is likely that further guidance and support will be issued by DCLG, and potentially other organisations such as CIPFA, to help you with the decisions you need to make and how you proceed. We will continue to update you on key developments.

If you want to discuss this further please contact your audit Engagement Lead, Darren Gilbert.

Contact

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Report to:	**Audit**
Date:	**19 January 2016**
Title:	**Treasury Management Mid-Year Review**
Portfolio Area:	**Support Services**
Wards Affected:	**ALL**

Relevant Scrutiny Committee: Overview and Scrutiny Committee (Internal)

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken:
(e.g. referral on of recommendation or implementation of substantive decision)

Author:	Lisa Buckle	Role:	**Finance Community of Practice Lead**
	David Bennett		**Specialist Accountant**

Contact: **Email Lisa.buckle@swdevon.gov.uk 01803 861413**

Recommendations:

It is recommended that the report be noted

It is recommended to Council that:

1. **The counterparty limit for counterparties set out in Appendix A (with the exception of Lloyds Bank plc) is increased from £2 million to £3 million.**
2. **The counterparty limit for Lloyds Bank plc (the Council's Bank) is increased from £3 million to £4 million. This allows flexibility to maintain a working balance of up to £1 million in the account, with the option to invest up to £3 million additional funds at any one time.**

1. Executive summary

The Council is on course to meet its budget target of £40,321. To date, the Council has outperformed the industry benchmark by 0.17%. The Council has achieved a rate of return of 0.52%, against the 7 day LIBID bid rate (LIBID) of 0.35%.

Raising the limit on the amount we could invest with agreed counter parties from £2 million to £3 million could increase the return by a few thousand pounds annually, whilst still maintaining a good spread of risk between British owned banks and money market funds.

2. Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The Council currently has a £2.1 million loan with the Public Works Loan Board.

Treasury management is defined as:

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

The Council's Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Audit Committee 24/02/2015 – AC39)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy (Audit Committee 29/09/2015)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports).

This report therefore ensures this Council is implementing best practice in accordance with the Code.

Economic Background

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US.

The Bank of England is forecasting growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth.

The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon.

Interest Rate Forecast
The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook a review of its interest rate forecasts on 11 August after the August Bank of England Inflation Report. This latest forecast includes no change in the timing of the first increase in Bank Rate as being quarter 2 of 2016.

The significant appreciation of Sterling against the Euro in 2015 has also acted as a dampening to UK growth while sharp volatility in financial markets since the Inflation Report has depressed equity prices, raised bond prices and lowered bond yields (and PWLB rates).

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual.

Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 31/03/15 - CM94 (Audit Committee 24/02/2015 – AC39). It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Treasury Position at 30 September 2015

Investment Type	As at 31/03/2015		As at 30/09/2015	
	Principal £	**Interest %**	**Principal £**	**Interest %**
SIBA Call Account	1,456,341	0.30	39,936	0.40
Short Fixed	2,000,000	0.46	6,000,000	0.57
Money Market Funds	4,000,000	0	5,450,000	0.45
Total	**7,456,341**	**0.40**	**11,489,936**	**0.52**

The following is a list of our fixed investments at 30 September 2015:

Counterparty	Fixed to	£	Interest Rate
Barclays Bank plc	11/02/2016	2,000,000	0.63%
Nationwide BS	26/11/2015	2,000,000	0.57%
Lloyds Bank Plc	22/10/2015	2,000,000	0.51%

Performance Assessment

The Council's budget for investment interest is £40,321 for 2015/16. Performance to date is on target to meet this budget.

Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.35% which is 0.17% lower than our weighted average return of 0.52%. The reason we are exceeding this benchmark is due to the use of fixed term deposits.

The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating are required together with a limit of £2 million per counterparty. This has resulted in only a small number of institutions in which we can invest (see Appendix A).

Compliance with Treasury Limits and Prudential Indicators

During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2015/16 are detailed is shown in Appendix B.

3. Outcomes/outputs

In the last 18 months the interest achieved has been above the industry benchmark due to better use of fixed term investments

4. Options available and consideration of risk

Many of the large income streams such as grants and council tax are received in advance of the authority needing them. This has led, on a few occasions to finance having to use poor returning investment counterparty's on the lending list such as Government UK Debt Management Facility (0.25%) and from November, the Natwest SIBA Call account will also be 0.25% as we have now closed the current account and switched to Lloyds.

Natwest have dropped the previously used interest rate on the call account from 0.40% to 0.25%. These are used as a final resort when we have reached the £2 million limit to invest with any one counter party. It is recommended to increase the Counter party limit from £2 million to £3 million per Counter party (with an increased limit of £4 million for Lloyds Bank plc, which is the Council's bank).

5. Proposed Way Forward

Raising the limit on the amount we could invest with agreed counter parties from £2 million to £3 million could increase the return by a few thousand pounds annually, whilst still maintaining a good spread of risk between British owned banks and money market funds.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial	Y	2015-16 Budget for investment income is £40,321 and we are on target to meet or slightly exceed this. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Hub Committee.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/A
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications	N	None

Supporting Information

Appendices:

Appendix A – Lending list as at 31 March 2015
Appendix B – Prudential and Treasury Indicators 2015/16

Background Papers:

Annual treasury strategy in advance of the year Annual Investment Strategy, was approved by the Council on 31/03/15 - CM94 (Audit Committee 24/02/2015 – AC39).
Annual review following the end of the year describing the activity compared to the strategy (Audit Committee 29/09/2015)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	**N/A**

APPENDIX A

West Devon Borough Council lending list

Barclays Bank Plc
HSBC Bank plc
Lloyds Banking Group Plc: • Bank of Scotland plc • Lloyds Bank plc
Nationwide Building Society
Royal Bank of Scotland Group Plc: • The Royal Bank of Scotland plc • National Westminster Bank plc
Government UK Debt Management Facility
Local Authorities (as defined under Section 23 of the Local Government Act 2003)
AAA rated Money Market Funds

APPENDIX B

PRUDENTIAL INDICATORS

THE CAPITAL PRUDENTIAL INDICATORS

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

Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
Total	**490**	**473**	**451**	**651**	**651**

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

Capital Expenditure	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual £000	Actual £000	Estimate £000	Estimate £000	Estimate £000
Total	**490**	**473**	**451**	**651**	**651**
Financed by:					
Capital receipts	312	259	0	0	0
Capital grants	178	186	239	239	239
Reserves	0	28	0	0	0
New homes Bonus	0	0	212	412	412
Net financing need for the year	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow if the figure is greater than zero. The negative figure reflects the fact that the Council is debt-free and has a nil borrowing requirement. The Council is not currently undertaking any borrowing to fund its Capital Programme from 2015/16 onwards.

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual £000	**Actual £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
Capital Financing Requirement (CFR)					
Total CFR	1,842	1,799	1,757	1,715	1,673
Movement in CFR	-43	-42	-42	-42	-42
Movement in CFR represented by:					
Net Financing need for the year	0	0	0	0	0
MRP (Minimum Revenue Provision) and other financing movements	-43	-42	-42	-42	-42
Net borrowing requirement	0	0	0	0	0

Minimum Revenue Provision (MRP)

The Minimum Revenue Provision is calculated at £42,000 per year. This is the Council's borrowing of £2.1 million divided by the life of the asset of 50 years.

Debt Rescheduling

The Council has one PWLB loan of £2.1 million which matures in 2053; this is at a rate of 4.55%.
The Council has not undertaken any debt rescheduling during the first six months of 2015/16 and there are no current opportunities for debt rescheduling.

AFFORDABILITY PRUDENTIAL INDICATORS

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

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	**Actual**	**Estimate**	**Estimate**	**Estimate**
Ratio of net investment income to net revenue stream. (Surplus)	1.6%	1.2%	1.2%	1.6%	1.3%

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

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

The Council is not undertaking any borrowing to fund its Capital Programme at present.

Incremental impact of capital investment decisions on the band D council tax (Notional cost as explained above)

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	Estimate	Estimate	Estimate
	£	£	£	£	£
Future incremental impact of capital investment decisions on the band D Council tax (Notional cost)	0.13	0.03	0.07	0.13	0.18

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Borrowing	3,000,000	3,000,000	3,000,000	3,000,000
Other long term liabilities	-	-	-	-
Total	3,000,000	3,000,000	3,000,000	3,000,000

Operational Boundary	2014/15	2015/16	2015/16	2015/16
	Actual	Estimate	Current Position	Revised Position
	£	£	£	£
Prudential Indicator – Capital Financing Requirement				
CFR	1,799,000	1,757,000		1,757,000
Prudential Indicator – External Debt/ The Operational Boundary				
Total Debt 31 March 2015	2,100,000	2,100,000	2,100,000	2,100,000

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

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Borrowing	6,000,000	6,000,000	6,000,000	6,000,000
Other long term liabilities	-	-	-	-
Total	6,000,000	6,000,000	6,000,000	6,000,000

West Devon Borough Council's current level of external borrowing is £2.1 million.