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West Devon
Borough
Council

WEST DEVON AUDIT COMMITTEE - TUESDAY, 11TH FEBRUARY, 2014

Agenda, Reports and Minutes for the meeting

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AGENDA – AUDIT COMMITTEE – 11th FEBRUARY 2014

PART ONE – OPEN COMMITTEE

1. **Apologies for absence**

2. **Declaration of Interest**
Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda, then please contact the Monitoring Officer in advance of the meeting.

3. **Items Requiring Urgent Attention**
To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

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MINUTES

4. **Confirmation of Minutes**
Meeting held on 10th December 2013 (previously circulated)

OPERATIONAL

PART TWO – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PUBLIC AND PRESS ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED (if any).
If any, the Committee is recommended to pass the following resolution:

"**RESOLVED** that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the Meeting on the grounds that exempt information may be disclosed as defined in Part I of Schedule 12(A) to the Act."

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STRATEGIC RISK ASSESSMENT

Reports to Members

Members will be aware of the requirement to take account of strategic risk in decision making. This note is designed to support Members consider strategic risks as part of the assessment of reports from officers.

There are an increasing number of issues that we have a statutory requirement to take into account which affect all aspects of the Council's policies and service delivery (e.g. Human Rights Act). There are also discretionary issues we choose to highlight in our reports (e.g. Financial Implications, and Impact on Council Priorities and Targets). Common Law duty requires Local Authorities to take into account all things they need to take into account! The Courts hearing Judicial Review applications make this their starting point in deciding whether any decision is reasonable.

Officers have a responsibility to assess the implications of recommendations to Members. Members should ensure that before making a decision they have undertaken a similar consideration relating to the risks associated with the report.

Examples of risk to be considered:-

Statutory Requirement :

- Equalities and Discrimination, particularly Race Equality. (Consider the impact on each of the following equality areas: Race, Religion and Belief, Gender, Sexual Orientation, Disability, Age)
- Human Rights
- Crime and Disorder
- Health and Safety
- Employment Legislation
- Data Protection
- Freedom of Information
- Corporate activity with an impact on Areas of Outstanding Natural Beauty, National Parks, Sites of Special Scientific Interest, and biodiversity

Corporate Requirement :

- Impact on Council's Reputation
- Impact on Priorities, Cross-Cutting themes, Targets and / or Commitments
- Impact on Standing Orders / Financial Regulations
- Impact on Council's Assets
- Financial Risks
- Compliance with National Policies and Guidance
- Impact on Sustainability

Members' attention is drawn to the Risk Assessment section within each report. Members are encouraged to consider whether the report has satisfactorily identified all likely negative impacts and mitigating action that will be taken. Members also need to consider the opportunities presented by actions, noting that any change entails an element of risk. The challenge is to effectively manage that risk.

RISK SCORING MATRIX

Impact/Severity		Target impact	Stakeholder impact	Finance impact
1	Insignificant	Low impact on outcome & target achievement & service delivery	Low stakeholder concern	Low financial risk
2	Minor	Minor impact on outcome & target achievement & service delivery	Minor stakeholder concern	Minor financial risk
3	Moderate	Moderate outcome & target achievement & service delivery	Moderate stakeholder concern	Moderate financial risk
4	Serious	High impact on outcome & target achievement & service delivery	High stakeholder concern	High financial risk
5	Very serious	Very high impact on outcome & target achievement & service delivery	Very high stakeholder concern	Very high financial risk

Likelihood/ Probability		Risk	Opportunity
1	Very low	Negligible chance of occurrence; has not occurred	Possible opportunity yet to be investigated with low likelihood of success
2	Low	Low chance of occurrence; has occurred infrequently but within internal control	Opportunity being investigated with low likelihood of success
3	Medium	Equal chance of occurrence or non occurrence; could occur more than once and be difficult to control due to external influences	Opportunity may be achievable with careful management
4	High	More likely to occur than not occur; has occurred more than once and difficult to control due to external influences	Good opportunity which may be realised
5	Very high	Very high chance of occurrence but not a certainty; has occurred recently	Clear reliable opportunity with reasonable certainty of achievement

Risk score = Impact/Severity x Likelihood/Probability

Likelihood						
	5	**5**	**10**	**15**	**20**	**25**
	4	**4**	**8**	**12**	**16**	**20**
	3	**3**	**6**	**9**	**12**	**15**
	2	**2**	**4**	**6**	**8**	**10**
	1	**1**	**2**	**3**	**4**	**5**
	0	1	2	3	4	5
	Impact					

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AGENDA ITEM 5	WEST DEVON BOROUGH COUNCIL	AGENDA ITEM 5

NAME OF COMMITTEE	**AUDIT**
DATE	**11 FEBRUARY 2014**
REPORT TITLE	**TREASURY MANAGEMENT STRATEGY FOR 2014/15 TO 2016/17, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**
Report of	**HEAD OF FINANCE**
WARDS AFFECTED	**ALL**

Summary of report:
This report seeks approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators.

Financial implications:
The primary objective of this strategy would be to maximise the return **on** the Council's investment activities, in proportion with acceptable risk. However we have been in exceptional circumstances with the global economy going through turbulent times, therefore the focus has changed to that of protecting our capital and getting the return **of** the Council's investments.

RECOMMENDATIONS:

That the Audit Committee resolves to RECOMMEND to Council approval of the following:

1. The Prudential Indicators and Limits for 2014/15 to 2016/17 contained within Appendix A of the report.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2014/15 to 2016/17 and the treasury Prudential Indicators contained within Appendix B.
4. The Investment Strategy 2014/15 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Appendix C.

Officer contact:
For further information concerning this report, please contact: Alex Walker, Accountant (01822) 813621 or email awalker@westdevon.gov.uk

1. BACKGROUND

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 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 that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Chartered Institute of Public Finance & Accountancy (CIPFA) defines treasury management as:

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

2. REPORTING REQUIREMENTS

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Committee before being recommended to Council. This role is undertaken by the Audit Committee.

Prudential and Treasury indicators and Treasury Strategy (this report) – The first and most important covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time)
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An Investment Strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members on whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of the treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. TREASURY MANAGEMENT FOR 2014/15

The strategy for 2014/15 covers two main areas:

3.1 **Capital Issues**

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy

3.2 **Treasury management issues:**

- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- Policy on use of external service providers

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

4. LEGAL IMPLICATIONS

4.1 The CIPFA Code of Practice states that Members receive and adequately scrutinise the treasury management service. The Council nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This was agreed at Council on 25th February 2010 and formed part of the revision to the Council's Constitution in April 2010.

5. FINANCIAL IMPLICATIONS

5.1 In 'general' economic conditions, the primary objective would be to maximise the return on the Council's investment activities, in proportion with acceptable risk. Effective treasury management strives to maximise investment returns whilst minimising risk and protecting capital. However we have been through exceptional circumstances, therefore the focus has changed to that of protecting our capital and getting the return of the Council's investments.

5.2 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a risk adverse investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget.

5.3 To illustrate how falling interest rates are affecting the Council, in 2007/08 we had investment income of £720,000. For 2014/15 it is estimated to be £25,321, a reduction of £694,679 since 2007/08.

6. RISK MANAGEMENT

6.1 The risk management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities.
Statutory powers:	Local Government Act 1972, s148(5)
Considerations of equality and human rights:	N/A
Biodiversity considerations:	N/A
Sustainability considerations:	N/A
Crime and disorder implications:	N/A
Background papers:	Treasury Management and Investment Strategy for 2013/14 to 2015/16 Treasury Management Monitoring – April to December 2013 Capital Programme 2014/15 and Prudential Indicators for 2013/14
Appendices attached:	Appendix A – The Capital Prudential Indicators Appendix B - Treasury Management Strategy 2014/15 – 2016/17 Appendix C -Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management Appendix D – Treasury Management Scheme of delegation

			Strategic Risk Assessment					
			Inherent risk status					
No	**Risk Title**	**Risk/Opportunity Description**	**Impact of negative outcome**	**Chance of negative outcome**	**Risk score and direction of travel**		**Mitigating & Management actions**	**Ownership**
1	Security	Risk of failure of counterparty	5	3	15	⇔	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 to SMT and Scrutiny quarterly .The Audit Committee has a scrutiny role over the Treasury Management operation. The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrates a low risk approach.	Head of Finance and Audit

			Strategic Risk Assessment					
No	**Risk Title**	**Risk/Opportunity Description**	**Inherent risk status**				**Mitigating & Management actions**	**Ownership**
			Impact of negative outcome	**Chance of negative outcome**	**Risk score and direction of travel**			
2	Liquidity	Liquidity constraints affecting interest rate performance	3	2	6	⇔	See above	Head of Finance and Audit
3	Yield	Volatility of interest rates/inflation	4	4	16	⇔	See above	

Appendix A

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. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Total	1,875	1,480	841	801	701

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

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2012/13 Actual £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Total	**1,875**	**1,480**	**841**	**801**	**701**
Financed by:					
Capital receipts	1,025	1,055	100	100	
Capital grants	745	178	186	239	239
Revenue Reserves	63				
New Homes Bonus		205	555	462	462
Net borrowing need for the year	**42**	**42**	**Nil**	**Nil**	**Nil**

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

The second prudential indicator is the Council's 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. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset life.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has none of these such schemes within the CFR.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
Total CFR	1,838	1,838	1,838	1,796	1,754
Movement in CFR	0	0	(42)	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	42	42	0	0	0
Less MRP/VRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	0	0	(42)	(42)	(42)

*The Head of Finance and Audit recommends that for 2014/15 that the Minimum Revenue Provision (MRP) is not used to help fund the capital programme but to accumulate in the General Fund for the repayment of the principal amount of the loan.

MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources **£m**	**2012/13** **Actual**	**2013/14** **Estimate**	**2014/15** **Estimate**	**2015/16** **Estimate**	**2016/17** **Estimate**
Fund balances / reserves	(1,812)	(1,480)	(2,000)	(2,000)	(2,000)
Capital receipts	(1,055)	(1,055)	(500)	(500)	(500)
Total core funds	**(2,867)**	**(2,535)**	**(2,500)**	**(2,500)**	**(2,500)**
Working capital*	**340**	**340**	**500**	**500**	**500**
Under/over borrowing	(262)	(262)	(262)	(262)	(262)
Expected investments	**(2,789)**	**(2,457)**	**(2,262)**	**(2,262)**	**(2,262)**

*Working capital balances shown are estimated year end; these may be higher mid year

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 cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Ratio of net investment income to net revenue stream (surplus).	1.3%	1.7%	1.5%	1.6%	1.6%

The estimates of financing costs include current commitments and the proposals in this budget report.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. This is a notional cost only and reflects the notional impact of spending capital resources. The Council is not undertaking any new borrowing to fund its Capital Programme from 2014/15 onwards.

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

	2012/13 Actual £	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.07	0.13	0.03	TBA	TBA

TREASURY MANAGEMENT STRATEGY 2014/15 – 2016/17

The capital expenditure plan set out in Section 2 provides details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying need (the Capital Financing Requirement –CFR), highlighting any over or under borrowing.

£	**2012/13 Actual**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
External Debt					
Debt at 1 April	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Expected change in debt	0	0	0	0	0
Debt at 31 March	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
CFR	1,838,000	1,838,000	1,838,000	1,796,000	1,754,000
Under/(over) borrowing	(262,000)	(262,000)	(262,000)	(304,000)	(346,000)
Investments					
Total Investments at 31 March	*1,000,000	2,500,000	2,500,000	2,500,000	2,500,000
Net Debt	1,100,000	(400,000)	(400,000)	(400,000)	(400,000)

*In addition to this £1,646,325 was also held in cash and bank balances

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

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	**2013/14 £**	**2014/15 £**	**2015/16 £**	**2016/17 £**
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**

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 Members. 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.

The Council is asked to approve the following Authorised Limit:

Authorised limit	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
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

Prospects for Interest Rates

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

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

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.

The current economic outlook and structue of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;

- Borrowing interest rates have risen significantly during 2013 and are on a rising trend.

Borrowing Strategy

This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations.

The Head of Finance, under delegated powers, will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances:

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Given the Council's capital financing requirements over the coming years, there is little likelihood of the Council increasing its external debt.

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2014/15	**2015/16**	**2016/17**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%
Limits on fixed interest rates: **Debt only**	3,000,000	3,000,000	3,000,000
Limits on variable interest rates: **Debt only**	750,000	750,000	750,000

Maturity Structure of fixed interest rate borrowing 2014/15		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	30%
5 years to 10 years	0%	50%
10 years and above	0%	100%

These are limits that apply to the total portfolio for in house investments

Policy on Borrowing in advance of need

The Council will not borrow more than, or in advance of its need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- The Council would not look to borrow more than 18 months in advance of need.

Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

If the Council had to borrow temporarily for cash flow purposes only in an emergency, then the Head of Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking in to account the risks. A report will subsequently be reported to Council. In all other circumstances, approval to borrow money will always be a decision that can only be made by Full Council and a full report will be brought to Members.

Given the Council's capital financing requirements over the coming years, there is little likelihood of the Council increasing its external debt.

Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. In light of current interest rates and penalties incurred in repaying debt it is unlikely that debt rescheduling will be undertaken in the near future.

The Council has enquired as to whether there is any opportunity to reschedule the PWLB loan of £2.1 million but the associated early repayment charge and premium that would be charged makes this uneconomic at his stage.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita Asset's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay this information on top of credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services.

Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix C under the 'Specified' and 'Non-specified' investment categories. Counterparty limits will be set through the Council's Treasury Management Practices – Schedules.

Creditworthiness Policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, viability rating A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Country limits
The Council has determined that it will only use UK registered banks.

In-house Funds
Investments will be made with reference to the core balance and cash flow requirements and the outlook for the short-term interest rates.

Investment Returns Expectations
Bank rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%

- 2015/16 0.50%
- 2016/17 1.25%

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

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

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

Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:-

Maximum principal sums invested > 364 days			
£M	2014/15	2015/16	2016/17
Principal sums invested > 364 days	Nil	Nil	Nil

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

These benchmarks are simple guides (not limits) to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- **0.08% historic risk of default when compared to the whole portfolio.**

Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Liquid short term deposits of at least £250,000 available with a week's notice.
- Weighted Average Life benchmark is expected to be 6 months, with a maximum of 1 year.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Returns above the average 3 month LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	**2 years**
Maximum	0.08%	0.01%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

End of Year Investment Report
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Advisers
The Council uses Sector as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Scheme of delegation
Please see appendix D

Role of section 151 officer
Please see appendix D

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A **nil** amount will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	*** Minimum credit criteria / colour band**	**** Max % of total investments / £ limit per institution**	**Max. maturity period**
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	£2million	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 months Up to 100 days Not for use
Money market funds (2^{nd} preference)	AAA	£2million	Liquid
Local Authorities	N/A	£2million	Yellow (Up to 5 years)

	* Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government (3rd preference)	N/A	100%	6 months
The Council is not recommending using the following investment vehicles and this is reflected by showing 0% against the limit per institution.			
UK Government gilts	AAA	0%	Yellow (5 years)
UK Government Treasury bills	AAA	0%	6 months
Bonds issued by multilateral development banks	AAA	0%	Yellow (5 years)
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	0%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Yellow	In-house
Term deposits – local authorities	Green	In-house
Term deposits – banks and building societies	Green	In-house

Term deposits with nationalised banks and banks and building societies

	* Minimum Credit Criteria	Use	*** Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	In-house	£2million	Up to 1 year

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Yellow	In-house
UK Government Gilts	UK sovereign rating	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold
Treasury Bills	UK sovereign rating	In house

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA Stable NAV	In-house
2. Money Market Funds	AAA Stable NAV	In-house

Accounting treatment of investments.

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix D

TREASURY MANAGEMENT SCHEME OF DELEGATION

Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on the recommendations
- Approving the selection of external service providers and agreeing terms of appointment

Audit Committee (responsibility for scrutiny)

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body

The treasury management role of the section 151 Officer (Head of Finance and Audit)

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

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AGENDA ITEM 6	**WEST DEVON BOROUGH COUNCIL**	AGENDA ITEM 6

NAME OF COMMITTEE	**Audit Committee**
DATE	**11 February 2014**
REPORT TITLE	**Third Quarter Prudential Indicator and Treasury Management Monitoring Report 2013-2014**
Report of	**Head of Finance & Audit**
WARDS AFFECTED	**All**

Summary of report:
This report highlights the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the actual and the proposed treasury management activity (borrowing and investment).

Financial implications:
The monitoring report shows that the Council outperformed the industry benchmark of 0.39% on its investment activity, by achieving a 0.42% return on its investments up to 31 December 2013.

RECOMMENDATIONS:
The Audit Committee is asked to recommend that Council notes the report, the treasury activity and recommends any changes to the prudential indicators

Officer contact:
For further information concerning this report, please contact: Alex Walker, Accountant (01822) 813621 or email awalker@westdevon.gov.uk

1. BACKGROUND

1.1 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.

1.2 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.

1.3 Accordingly treasury management is defined as:

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

2. ECONOMIC SITUATION

2.1 Economic forecasting remains difficult with many external influences weighing in on the United Kingdom.

The quarter ended 31 December 2013 saw:

- Signs that GDP growth may have accelerated;
- Evidence pointed to a moderation of household spending growth;
- Inflation fell to its lowest level since November 2009;
- Unemployment approached the MPC's 7% forward guidance threshold;
- The MPC maintained the stance of monetary policy;
- 10-year gilt yields rose to 3% and the FTSE 100 reach 6749;
- The Federal Reserve decided to reduce the size of its monthly asset purchases by $10bn (from $85bn to $75bn).

The Council's treasury advisor, Capita Asset Services, has provided the following forecast on the bank rate and borrowing rates from the Public Works Loan Board (PWLB):

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%

Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly Inflation Report. The latest forecast now includes a first increase in Bank Rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

The Government's target measure of inflation, Consumer Prices Index (CPI) fell from a 2013 peak of 2.9% in June to 2.1% in November.

The Retail Prices Index (RPI) annual inflation stood at 2.6% in November 2013.

3. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

3.1 The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by Council on 08 October 2013. No policy changes to the TMSS are proposed in this report. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity
- Return (yield)

3.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. During the period under review, the unsettled economic climate and heightened credit concerns made it appropriate to keep investments short term with a maximum duration of three months.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Treasury Position at 31 December 2013

3.3 Our investment position at the beginning of the year and at 31 December 2013 is as follows:

	As at 31/12/2013		**As at 31/03/2013**	
	Principal £	**Interest %**	**Principal £**	**Interest %**
SIBA	1,278,212	Daily Rate	1,646,325	Daily Rate
Short Fixed	6,000,000	0.41	1,000,000	0.46
Long Fixed	-	-	-	-
Money Market Funds	1,000,000	0.32	-	-
			-	-
Total	**8,278,212**		**2,646,325**	

There is a cashflow advantage during the year due to the timing of when the precepts are paid to precepting authorities.

The following is a list of our fixed term investments at 31 December 2013:

	Fixed to	£	Interest rate
*Lloyds TSB	03.01.14	2,000,000	0.50%
Nationwide BS	07.02.14	2,000,000	0.42%
Barclays	17.02.14	2,000,000	0.45%

*Rolled over from original maturity date of 21st October 2013

A list of our fixed term investments for the financial year is detailed in Appendix C.

Performance Assessment

3.4 The Council's budgeted investment return for 2013/14 is £45,321, and £15,768.23 has been received to date. The budget monitoring report to the Resources Committee shows an anticipated overspend of £20,000 against the budget.

3.5 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 December was 0.39% which is 0.03% lower than our weighted average return of 0.42%. The reason we are exceeding this benchmark is due to the use of fixed term deposits. (see details in 3.3).

3.6 The Treasury Management Strategy is risk averse with a very high credit rating 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).

3.7 The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement (TMSS) is meeting the requirement of the treasury management function.

Compliance with Treasury Limits and Prudential Indicators

3.8 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 2013/14 are detailed in Appendix B.

4. LEGAL IMPLICATIONS

4.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2013/14);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the Department for Communities and Local Government (DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

4.2 The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

5. FINANCIAL IMPLICATIONS

5.1 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a risk adverse investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget.

5.2 To illustrate how falling interest rates are affecting the Council, in 2007/08 we had investment income of £720,000. For 2013/14 it is estimated to be £25,000, a reduction of £695,000 since 2007/08.

6. RISK MANAGEMENT

6.1 The Council is aware of the risks of management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed its treasury position. The Council uses Sector's Creditworthiness approach when deciding who to invest with in order to mitigate any investment risk. The risk management implications are shown in the strategic risk template at the end of this report.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities
Statutory powers:	See legal implications above
Considerations of equality and human rights:	N/A
Biodiversity considerations:	N/A

Sustainability considerations:	N/A
Crime and disorder implications:	N/A
Background papers:	Treasury Management Strategy and Annual Investment Strategy for 2013/14 to 2015/16
Appendices attached:	Appendix A – Counterparty List Appendix B – Treasury Indicators Appendix C – Benchmarking Internally Managed Funds

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
	Opportunity	For the Council to comply with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities.	1	1	1	⇔	The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.	Head of Finance and Audit
	Risk	The Council is aware of the risks of management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed its treasury position. Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting	3	1	3	⇔	The Council has utilised low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.	Head of Finance and Audit

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
		future returns can be difficult.						

APPENDIX A

WEST DEVON BOROUGH COUNCIL - LENDING LIST AS AT 31 DECEMBER 2013.

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

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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	2011/12 Actual £000	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Total	2,213	1,875	1,480	841	801

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).

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2011/12 Actual £000**	**2012/13 Actual £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**
Total	**2,213**	**1,875**	**1,480**	**841**	**801**
Financed by:					
Capital receipts	275	1,025	1,055	100	100
Capital grants	1,906	745	178	186	239
Revenue Reserves	32	63			
Revenue Funding					
New Homes Bonus			205	555	462
Net borrowing need for the year	**Nil**	**42**	**42**	**Nil**	**Nil**

The Council's Borrowing Need (the Capital Financing Requirement)
The second prudential indicator is the Council's 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. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has none of these such schemes within the CFR.

£m	2011/12 Actual	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement					
Total CFR	1,880	1,838	1,838	1,838	1,796
Movement in CFR	(42)	0	0	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	0	42	42	0	0
Less MRP/VRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	(42)	0	0	(42)	(42)

*The Head of Finance and Audit recommends that for 2014/15 that the Minimum Revenue Provision (MRP) is not used to help fund the capital programme but to accumulate in the General Fund for the repayment of the principal amount of the loan.

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 2013/14.

The Council has enquired as to whether there is any opportunity to reschedule the PWLB loan of £2.1 million but the associated early repayment charge and premium that would be charged makes this uneconomic at his stage.

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.

	2011/12 Actual	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Ratio of net investment income to net revenue stream (surplus).	1.3%	1.3%	1.7%	1.5%	1.6%

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)

	2011/12 Actual £	2012/13 Actual £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.02	0.07	0.13	0.03	TBA

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	2012/13 £	2013/14 £	2014/15 £	2015/16 £
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**

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period.

Operational Boundary	**2012/13 Actual Position**	**2013/14 Original Estimate**	**Current Position**	**2013/14 Revised Position**
Prudential Indicator – Capital Financing Requirement				
CFR	1,838,000	1,838,000		1,838,000
Prudential Indicator – External Debt/ the Operational Boundary				
Total Debt 31 March 2013	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 Members. 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	**2013/14 Original Indicator £**	**2013/14 Current Position £**	**2013/14 Revised Indicator £**
Borrowing	6,000,000	2,100,000	6,000,000
Other long term liabilities	-	-	-
Total	**6,000,000**	**2,100,000**	**6,000,000**

BENCHMARKING OF INTERNALLY MANAGED FUNDS

Weighted Amount £	Start Date	Maturity Date	Borrower	Interest Rate	Interest Paid £	Interest Accrued £
138,182	15.03.13	22.04.13	Barclays	0.40%	418.52	
174,545	02.04.13	20.05.13	Barclays	0.41%	539.18	
160,000	20.05.13	03.07.13	Barclays	0.40%	487.01	
320,000	15.04.13	29.05.13	Lloyds	0.40%	964.38	
178,182	15.05.13	03.07.13	Barclays	0.41%	543.70	
378,182	17.06.13	08.08.13	Lloyds	0.40%	1,139.73	
436,364	15.07.13	13.09.13	Barclays	0.40%	1,315.07	
487,273	15.08.13	21.10.13	Lloyds	0.41%	1,505.21	
538,182	21.10.13	03.01.14	Lloyds	0.50%		2,027.40
254,545	16.09.13	21.10.13	Barclays	0.40%	767.12	
149,091	15.10.13	25.11.13	Nationwide	0.40%	449.32	
683,636	15.11.13	17.02.14	Barclays	0.45%		2,317.81
385,455	16.12.13	07.02.14	Nationwide	0.42%		1,219.73
4,283,636					**8,129.23**	**5,564.93**

* Note: These investments have been weighted appropriately to reflect the fact that their duration does not cover the whole term of the period reported.

Total interest for the period on a weighted capital sum of £3,818,681 amounts to £7,680 which equates to an investment return as follows:-

$$\frac{£13{,}694}{£4{,}283{,}636} \times \frac{365}{275} \times \frac{100}{1} = 0.42\%$$

The average 3-month LIBID for the period = 0.39%

Variance = 0.03%

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Certification report 2012/13 for West Devon Borough Council

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Year ended 31 March 2013

11 February 2014

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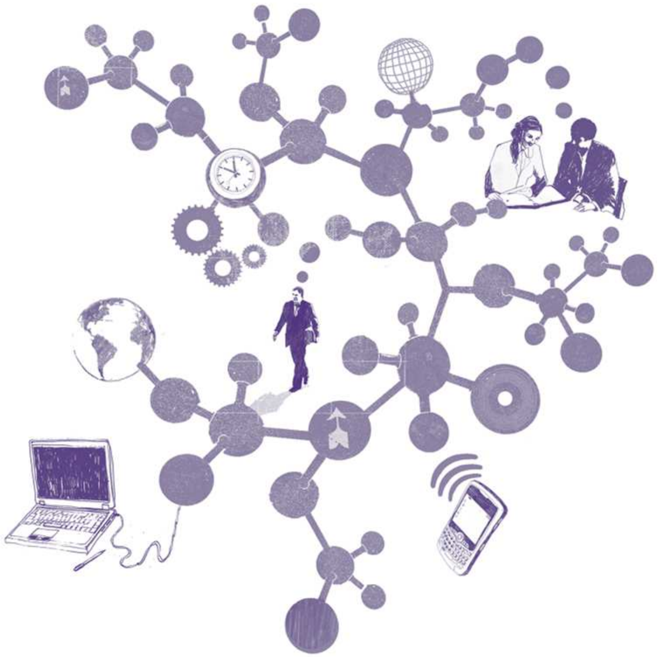

Agenda Item 2c

Contents

Section 1: Executive summary

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by West Devon Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £27.9 million.

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This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Audit Plan issued to the Council in March 2013.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted and certified on time.	● green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Neither claim required amendment or certification.	● green
Supporting working papers	Working papers and evidence provided were good., which enabled certification within the deadlines.	● green

The way forward

No deficiencies in the Council's processes have been noted and no recommendations have been made.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
XXX 2014

Section 2: Results of our certification work

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01. Executive summary

02. Results of our certification work

Results of our certification work

Key messages

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £27.9 million.

Both claims were submitted by the Council and Certified by Grant Thornton within the set deadlines. Neither claim required amendment or qualification.

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	2	100%	2	100%	
Claims certified on time	100%	2	100%	2	100%	
Claims certified without amendment	100%	2	100%	1	50%	
Claims certified without qualification	100%	2	100%	2	100%	

Details of the certification of all claims and returns are included at Appendix A.

Significant findings

There were no significant findings that we need to report to those charged with governance. We are pleased to report that neither of the claims required amendment this year, which represents an improvement over last year.

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £7,500.

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Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended	Amendment (£)	Qualified	Comments
Housing and Council Tax Benefit	17,778,722	No	n/a	No	None
National non-domestic rates return	10,080,061	No	n/a	No	None

Appendix B: Fees

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Claim or return	2011/12 fee (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£) **	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	7,135	8,090	8,090	955	Additional testing resulting from qualification additional testing
National non-domestic rates return	1,827	2,560	2,560	733	Based on full testing carried out in 2010/11
Reporting	410			-410	Reporting time has ben incorporated within fee charged for each claim.
Total	**9,372**	**10,650**	**10,650**	**1,278**	

*   2011/12 actual fee less 40% fee reduction to make it comparable to the 2012/13 fee.

** 2012/13 indicative fee is based on the 2010/11 fee reduced by 40%

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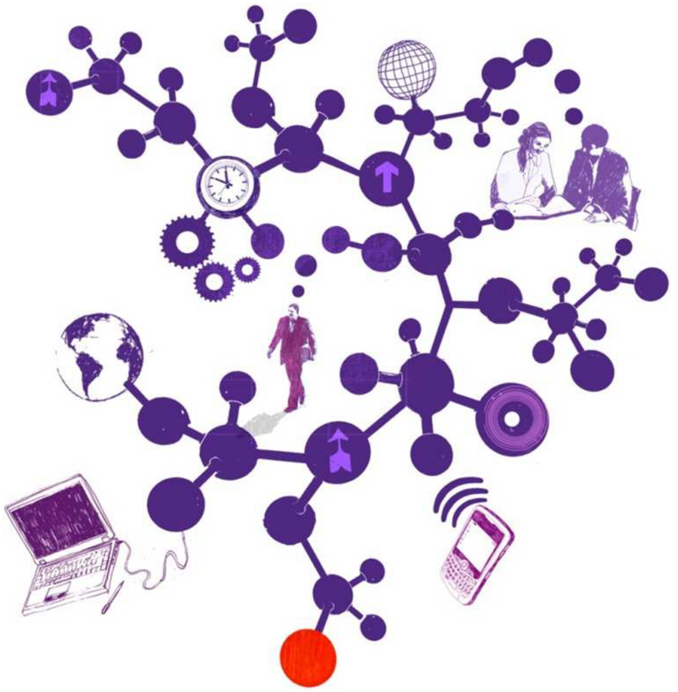
Audit Committee Update for West Devon Borough Council

Year ended 31 March 2014

11 February 2014



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Agenda Item 2d

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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a borough council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact your Engagement lead or Audit Manager.

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Progress at 11 February 2014

Work	Planned date	Complete	Comments
2012-13 Audit	By 31 October 2013	Yes	Audit complete and annual audit letter produced and copied to this committee.
Certification Work 2012-13.	By 30 November 2013	Yes	We audited two claims for 2012/13. Neither was amended or qualified.
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	March 2014	Not due	This will be produced to inform our work on 2013/14 audit, taking account of developments in local government accounting requirements and reflecting on the audit process from 2012/13.
2013-14 Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing.	Spring 2014	Not due	Work will commence on 17th March 2014.

Progress at 30 November 2013

Work	Planned date	Complete	Comments
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts.	Summer 2014 September 2014	Not due Not due	Not yet due.
2013-14 Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: • a detailed review of financial resilience • a review of arrangements for securing economy and efficiency • a follow up of recommendations made last year.	Spring Summer 2014	Not due	Work will start on 17th March 2014.

Emerging issues and developments

Local government guidance
Council tax collection – data from the value for money profiles The Audit Commission has released a briefing on Council Tax Collection which uses the data held in the VFM profiles tool. The VfM profiles can be used to consider: • how the cost and rate of collection compares to different comparator groups • how changes over time compare to the overall trends described in the briefing • how council tax collection may be affected by local arrangements in the council tax reduction scheme. Issues for consideration: • Has your Head of Finance & Audit reviewed the costs and performance of your authority against similar organisations? • Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Local Government Pension Scheme

The Department for Communities and Local Government has launched a 'Call for Evidence' on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closed on 27 September 2013.

Issues for consideration:

- Has Head of Finance & Audit reviewed the consultation and assessed the potential impact?
- Did your authority respond to the consultation?

Local government claims and returns 2011/12

In June 2013, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

Issue for consideration:

- What procedures does your Head of Finance & Audit have in place to ensure that grant schemes terms and conditions are complied with and that claims and returns are completed accurately?

Emerging issues and developments

Grant Thornton

'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

Issue for consideration:

- Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?

Emerging issues and developments

Grant Thornton

Spending Round 2013

It was announced in the June 2013 spending round that the local government resource budget will be reduced by 10 percent in 2015-16.

As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on informationdaily.com, the Chancellor *'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this*.'

'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'

Issues for consideration:

- Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken? We would emphasise that for West Devon Borough Council, the preparation of the 2014-19 MTFP is already in progress.

- How is your authority planning to work with other organisations in the public sector?

Emerging issues and developments

Accounting and audit issues

2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*
- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements.

Both consultations closed on Friday 11 October 2013.

Issue for consideration:

- Has your Head of Finance & Audit reviewed the proposed amendments and assessed the potential impact?

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Grant Thornton

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At a Meeting of the **AUDIT COMMITTEE** held at the Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **11th** day of **FEBRUARY 2014** at **11.00 am**.

Present: Cllr D K Sellis – Chairman
Cllr J B Moody – Vice-Chairman
Cllr K Ball Cllr T J Hill
Cllr M Morse

Head of Finance & Audit
Chief Accountant
Accountant
Chief Internal Auditor
Committee & Ombudsman Link Officer

In attendance: Mr S Johnson – Grant Thornton (External Auditors)

AC 30 CAR PARKING ISSUES

Arising from Minute No AC 18(a) – 2013/2014, it was reported that the Vice-Chairman, Cllr J Moody, and Cllr K Ball had experienced some difficulties in obtaining the information needed to form a view on car parking trends within the Borough. Discussions with officers had clarified the situation and the information requested had been provided from which certain trends in parking had been noted.

Whilst it was acknowledged that car parking fell within the remit of the Community Services Committee, the Audit Committee would keep a "watching brief" on the car parking issues being the Committee that originally raised the matter.

AC 31 CONFIRMATION OF MINUTES

The Minutes of the Meeting held on 10th December 2013, were confirmed and signed by the Chairman as a correct record.

AC 32 TREASURY MANAGEMENT STRATEGY FOR 2014/15 TO 2016/17, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15

The Head of Finance presented a report (page 6 to the Agenda) seeking the Committee's approval of proposed Treasury Management and Investment Strategies together with their associated prudential indicators and for the Committee to recommend such for approval to Council. The primary objective of the strategy was to maximise the return on the Council's investments in direct proportion with acceptable risk.

Four appendices were presented with the report. Appendix A (page 12 to the Agenda) detailed the capital prudential indicators; Appendix B (page 16 to the Agenda) set out the Treasury Management Strategy 2014/15 to 2016/17; Appendix C (page 26 to the Agenda) detailed the Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management; and Appendix D (page 30 to the Agenda) the Treasury Management Scheme of Delegation.

In response to a question, the Head of Finance reported that the one-off investment costs of implementing the Transformation 18 Programme were being met through savings and the use of reserves and that there would be no need for the Council to borrow to fund the programme.

In response to a further question, the Accountant reported that investments were limited to a list of approved financial institutions and that investments were reviewed on a daily basis. Investments were usually for short-term periods of 3 months. Higher investment rates were dependent on the sums invested but the Borough Council did not have sufficient investment capital to benefit from a higher return. An illustrative example showed that in 2007/2008, the Council received investment income of £720,000: the anticipated investment income for 2014/2015 was estimated to be £25,321, a reduction of £694,679 on the earlier figure.

It was **RESOLVED** to **RECOMMEND** that Council approves the:

(i) Prudential Indicators and Limits for 2014/2015 to 2016/2017 contained within Appendix A;
(ii) Minimum Revenue Provision (MRP) Statement contained within Appendix A which stated the Council's policy on MRP;
(iii) Treasury Management Strategy 2014/2015 to 2016/2017 and the Treasury Prudential Indicators contained within Appendix B; and,
(iv) Investment Strategy 2014/2015 contained in the Treasury Management Strategy in Appendix B and the detailed criteria included in Appendix C.

AC 33 THIRD QUARTER PRUDENTIAL INDICATOR AND TREASURY MANAGEMENT MONITORING REPORT 2013/2014

The Head of Finance & Audit presented a report (page 31 to the Agenda) which highlighted the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment). Monitoring of investments had shown that up to 31st December 2013, the Council had outperformed the industry benchmark of 0.39% return on investment activity by achieving a 0.42% return on investments. This had been achieved through the use of fixed term deposits.

The Council operated through a balanced budget process which utilised cash raised during the year to fund its expenditure. Part of the treasury management operations ensured that this cash flow was adequately planned, with surplus monies being invested in low risk counterparties, thus providing adequate liquidity initially before considering maximising investment return.

The Council's budgeted investment return for 2013/2014 was £45,321, of which £15,768.23 had been received to date. The budget monitoring report to be presented to the Resources Committee would show an anticipated overspend of £20,000 against the budget.

Three appendices were presented with the report – Appendix A – Lending list as at 31st December 2013 (page 39 to the Agenda); Appendix B – Prudential Indicators (page 40 to the Agenda); and Appendix C – Benchmarking of internally managed funds (page 44 to the Agenda).

It was **RESOLVED** to **RECOMMEND** that Council notes the report and the treasury activity and puts forward any recommendation for changes to the prudential indicators.

***AC 34 CERTIFICATION REPORT 2012/13**

Mr S Johnson, Audit Manager, presented the Certification Report for 2012/13 (page 45 to the Agenda) as prepared by Grant Thornton. All claims (2) had been submitted and certified on time supported by good working papers and evidence. The claims were for Housing and Council Tax Benefit valued at £17,778,722 and for National Non-Domestic Rates Return valued at £10,080,061: neither claim needed amendment or certification.

The Committee was pleased to note that Grant Thornton were very complimentary on the way that the Council's finance officers had prepared and presented their work and that to receive such compliments from external auditors was rare.

It was further reported that Grant Thornton would not be required to audit NNDR claims in future through changes to Government requirements and the NNDR scheme. It was noted that the work of the Internal Audit team had raised the Council's NNDR work from an "adequate" audit opinion to a "good" audit opinion and the Committee was keen that this status be maintained. The Secretary of State did not require a specific year end audit of Councils' Business Rates annual returns for 2013/2014 and Grant Thornton would only review this area as part of their overall review of the Final Accounts. If Councils required a more in-depth audit of their Business Rates figures, this work would need to be specifically commissioned. The Head of Finance suggested that she would contact her Devon colleagues (Section 151 Officers) to perhaps make a collective arrangement for individual audits as a safety measure and to give a level of assurance. The Devon Business Rates pool included mention of an annual audit in its governance arrangements.

It was **RESOLVED** that the report be received and noted.

***AC 35 AUDIT COMMITTEE UPDATE**

Grant Thornton presented a report (page 57 to the Agenda) updating the Committee on the progress being made in meeting the programmed external audit plan. Both the Audit and the Certification Work for 2012/2013 had been completed. Work on the 2013/2014 Accounts Audit Plan was due to start in March 2014 and work on the 2013/2014 Interim Accounts Audit would start on 17th March 2014. Grant Thornton would present the Audit Plan at the Committee's next meeting.

It was also reported that the 20% Council Tax support scheme had not been introduced by the Council in 2013/2014 due to transitional funding arrangements and technical changes that were introduced, but this scheme would be introduced in 2014/2015 and a report on the impact of this would be presented to the Resources Committee as and when necessary.

It was **RESOLVED** that the report be received and noted.

(The Meeting terminated at 12.05 pm.)