Public Document Pack

Committee: Accounts, Audit and Risk Committee

Date: Wednesday 20 January 2016

Time: 6.30 pm

Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Mike Kerford-Byrnes (Chairman)	**Councillor Rose Stratford (Vice-Chairman)**
Councillor Andrew Beere	**Councillor Colin Clarke**
Councillor Ray Jelf	**Councillor Nicholas Mawer**
Councillor Barry Richards	**Councillor Lawrie Stratford**

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

5. **Minutes** (Pages 1 - 8)

To confirm as a correct record the Minutes of the meeting of the Committee held on 2 December 2015 and the special meeting of the Committee held on 15 December 2015.

6. **Chairman's Announcements**

To receive communications from the Chairman.

7. **External Audit Verbal update**

There is no report relating to external audit from Ernst Young. Neil Harris, Executive Director, Government & Public Sector, UK&I Assurance, Ernst & Young, will give a verbal update at the meeting.

8. **Internal Audit Progress Report** (Pages 9 - 20)

Report of the Head of Finance & Procurement

Purpose of report

To receive the PwC Internal Audit Annual Report.

Recommendations

The meeting is recommended:

1. To consider and note the contents of the Progress Report.

9. **Corporate Fraud Quarterly Update** (Pages 21 - 42)

Report of Head of Finance and Procurement

Purpose of report

To provide members of Accounts, Audit and Risk Committee with an update on the joint Corporate Fraud team including progress made on the team's business plan for 2015-2016.

Recommendations

The meeting is recommended:

1. To note the contents of the report.

10. **Draft Treasury Management Strategy 2016/17** (Pages 43 - 82)

Report of the Head of Finance and Procurement

Purpose of report

To submit the draft Treasury Management Strategy Statement for 2016/17.

Recommendations

The meeting is recommended:

1. To note and comment on the draft Treasury Management Strategy 2016/17.

11. Review of Work Programme 2015-16 (Pages 83 - 84)

To note the work programme 2015-16.

12. Exclusion of the Press and Public

The following item of business contains exempt information as defined in the following paragraphs of Part 1, Schedule 12A of Local Government Act 1972.

1 - Information relating to any individual

2 - Information which is likely to reveal the identity of an individual

3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Members are reminded that whilst the following items have been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to pass the following recommendation:

"That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraphs 1, 2 and 3 of Schedule 12A of that Act."

13. Review by KPMG of NNDR Overpayment

** Please note that due to the confidential nature, this report will only be circulated to members of the Account, Audit and Risk Committee **

Exempt Report of Chief Executive

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence
Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01295 221554 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Evacuation Procedure

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

Mobile Phones

Please ensure that any device is switched to silent operation or switched off.

Queries Regarding this Agenda

Please contact Sharon Hickson, Democratic and Elections
sharon.hickson@cherwellandsouthnorthants.gov.uk, 01295 221554

Sue Smith
Chief Executive

Published on Tuesday 12 January 2016

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 2 December 2015 at 6.30 pm

Present:	Councillor Mike Kerford-Byrnes (Chairman) Councillor Andrew Beere Councillor Ray Jelf Councillor Nicholas Mawer Councillor Barry Richards Councillor Lawrie Stratford
Also Present:	Councillor Ken Atack
Apologies for absence:	Councillor Rose Stratford Councillor Colin Clarke
Officers:	Paul Sutton, Head of Finance and Procurement Shirley Vaughan, Performance and Planning Officer Chris Dickens, Chief Internal Auditor James Doble, Deputy Monitoring Officer Sharon Hickson, Acting Democratic and Elections Officer

32 **Declarations of Interest**

There were no declarations of interests.

33 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

34 **Urgent Business**

There was no urgent business.

35 **Minutes**

That Minutes of the meeting of the Committee held on 23 September 2015 were agreed as a correct record and signed by the Chairman, subject to the following amendment:

Item 21 Statement of Accounts 2014/15

Paragraph 4, 2012/13 to be changed to "2011/12."

The minutes of the special meeting held on 9 October 2015 were agreed as a correct record and signed by the Chairman.

36 **Chairman's Announcements**

The Chairman made the following announcements:

1. The filming and broadcasting of the meeting was permitted, subject to the efficient running of the meeting not being affected.

2. He had agreed to change the order of the agenda and would be moving agenda item 9 before agenda item 7.

3. Update on Reclaim of NNDR
   Following the council's initial approach to the Department for Communities and Local Government regarding the reclaim, the Council was now in dialogue with the department. These discussions are sensitive and are complicated by the status of the money that was overpaid, that is the scheme which was operating when the overpayment occurred was under a scheme repealed in 2013 and that the issue in question is a simple overpayment as opposed to a gain or loss of income or a retrospective adjustment. It was too early at this time to go into details on these discussions or give an indication of the likelihood of repayment as to do so could fetter the government's position and ability to repay in full.

4. Review by KPMG into Overpayment of NNDR

This is progressing and a draft document will be made available to Chief Executive and Deputy Monitoring Officer by the end of the week, subject to there being no major issues with the draft, an agenda will be published Monday 7 December 2015 for an extraordinary meeting of the Accounts, Audit and Risk Committee to be held at 6pm Tuesday 15 December 2015 to enable the Committee to consider the report.

37 **External Audit: Annual Audit Letter 2014-15**

The Committee considered a report of the Head of Finance and Procurement which summarised the External Audit work for 2014-15.

Resolved

(1) That the key issues raised in the letter be noted.

38 **Internal Audit - Progress Report 2015-16**

The Committee considered a report of the Head of Finance and Procurement which sought consideration of Internal Audit report which summarised their internal audit work to date.

The Deputy Monitoring Officer confirmed to the Committee that a training package would be available for Members following the 2016 Elections, the package would include Risk Management training for all Members..

Resolved

(1) That the progress report be noted.

39 **Second Quarter Risk Review 2015-16 and Update on Development of Risk & Opportunities Management Strategy**

The Committee considered a report of the Head of Transformation on the management of Strategic, Corporate and Partnership Risks during the second quarter of 2014/15 and the progress made on the 2015/16 Risk & Opportunities Management Strategy review, Risk Training programme and 2015 Risk Audit.

Resolved

(1) That the report be noted.

(2) That the decrease in scores to one shared risk be noted.

(3) That the progress made on the 205/16 Risk and Opportunities Management Strategy review, the Risk Training Programme and the 2015 Risk Audit be noted.

40 **Q2 Treasury Management Report**

The Committee considered a report of the Head of Finance and Procurement which set out treasury management performance and compliance with treasury management policy for 2015/16 for Quarter 2 as required by the Treasury Management Code of Practice.

In response to Member questions the Head of Finance and Procurement informed members that interest accrued on the remaining investment held within Iceland would remain in Iceland accruing higher interest than would be received, if paid back at this time.

Resolved

(1) That the Quarter 2 Treasury report be noted.

41 **Work Programme 2015-16**

The Committee considered its Work Programme 2015-16.

Resolved

(1) That the work programme be noted.

42 **Exclusion of the Press and Public**

Resolved

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act .

43 **Q2 Treasury Management Report - Exempt Appendix**

Resolved

(1) That the exempt appendix be noted.

The meeting ended at 7.10 pm

Chairman:

Date:

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 15 December 2015 at 6.00 pm

Present:	Councillor Mike Kerford-Byrnes (Chairman) Councillor Andrew Beere Councillor Colin Clarke Councillor Ray Jelf Councillor Nicholas Mawer Councillor Barry Richards Councillor Lawrie Stratford
Substitute Members:	Councillor Barry Wood (In place of Councillor Rose Stratford)
Also Present:	Councillor Sean Woodcock
Apologies for absence:	Councillor Rose Stratford
Officers:	Sue Smith, Chief Executive John Cornett (KPMG) James Doble, Deputy Monitoring Officer

44 **Adjournment**

The Chairman declared the meeting open and outlined that John Cornett (KPMG) had been delayed in traffic, on a proposal from the chair and with the agreement of the meeting an adjournment of 15 minutes took place.

(The meeting adjourned at 6.15pm)
(The meeting reconvened at 6.30pm)

45 **Declarations of Interest**

There were no declarations of interest.

46 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

47 **Urgent Business**

There were no items of urgent business.

48 **Chairman's Announcements**

There were no Chairman's announcements.

49 **Exclusion of the Press and Public**

Resolved

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraphs 1, 2 and 3 of Schedule 12A of that Act.

50 **Consideration of KPMG Report into the Overpayment of NNDR to the Government**

The Chief Executive in introducing the report outlined that due to the nature of the report officer attendance had been restricted to herself as Head of Paid Service and James Doble as Deputy Monitoring Officer.

John Cornett (KPMG) gave a detailed presentation of the draft report of KPMG into the overpayment of NNDR to the government. It was confirmed that the findings and timeline only had been sent to all those interviewed for comment. During the course of the presentation members asked many questions on the report and provided comment on the draft. Clarification was provided including the role played by individual officers and the finance team. During the course of debate it was expressed by some members that the incident had given them cause for concern and adversely affected their confidence. It was agreed that clarification would be sought on when senior officers first became aware of the issue.

Members thanked John Cornett for the clarity of his presentation.

Resolved

(1) That the report be provisionally accepted.

(2) That the Chief Executive be requested to circulate the full provisional report to all those that were interviewed, External Auditor (EY) and Internal Auditor (PWC) on a confidential basis for their comment and response to the committee at its 20 January 2016 meeting.

(3) That the Chief Executive be requested to produce a management response to the recommendations and action plan for consideration by the Committee on 20 January 2016.

(4) That the meeting of the Accounts, Audit and Risk Committee on 20 January 2016 consider the adoption of the final report, management response and action plan.

The meeting ended at 8.00 pm

Chairman:

Date:

This page is intentionally left blank

Cherwell District Council

Accounts Audit and Risk Committee

20 January 2016

Internal Audit – Progress Report 2015-16

Report of the Head of Finance & Procurement

This report is public

Purpose of report

To consider the PwC Internal Audit Annual Report.

1.0 Recommendations

The meeting is recommended:

1.1 To consider and note the contents of the Progress Report.

2.0 Introduction

2.1 Internal Audit undertakes its work in line with their Audit Plan issued March 2015.

3.0 Report Details

3.1 Internal Audit is on track to deliver its planned programme of work for the year (attached in Appendix 1).

4.0 Conclusion and Reasons for Recommendations

4.1 The progress report summarises internal audit's work for 2015-16.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not applicable as this report is for information. However, members may wish to request further information from the Chief Internal Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by: George Hill, Corporate Finance Manager
george.hill@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by: Kevin Lane, Head of Law & Governance
0300 0030107 Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management

7.3 There are no risk management issues arising directly from this report

Comments checked by: Jo Pitman, Head of Transformation
Jo.pitman@cherwellandsouthnorthants.gov.uk

Equality and Diversity

7.4 There are no equality and diversity issues arising directly from this report

Comments checked by: Jo Pitman, Head of Transformation
Jo.pitman@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	PwC Progress Report 2015-16
Background Papers	
None	
Report Author	George Hill, Corporate Finance Manager
Contact Information	george.hill@cherwellandsouthnorthants.gov.uk

This page is intentionally left blank

www.pwc.co.uk

Internal Audit Progress Report

Update to the Accounts, Audit and Risk Committee on Internal Audit activity

Cherwell District Council

January 2016

pwc

Contents

Introduction

We are committed to keeping the Accounts, Audit and Risk Committee up to date with internal audit progress and activity throughout the year. This summary has been prepared as at 7 January 2016 to update you on our activity since the last meeting of the committee and to bring to your attention matters that are relevant to your responsibilities as members of the committee.

We have also attached again for reference some of the latest publications that might be of interest to you as members of the committee (these are included in Appendix 1).

2015/16 audit plan update

As previously reported we continue to have ongoing discussions with management on the audit plan for 2015/16 and the plan summary below shows latest position on each of the reviews included in the plan. Comments are provided under the table below to show the main updates since our last report. We will update the committee further verbally as required during the meeting.

As previously reported we agreed with management to complete our reviews in a smaller number of blocks and therefore remain on track with our proposed plan for delivery during quarter 3 and quarter 4.

There are no changes to the areas of review included in the plan that was presented to the committee in March 2015.

Annual plan and indicative timeline

The following table sets out our internal audit work plan. Comments are provided under the table below to show the main updates since our last report. We will update the committee further verbally as required during the meeting.

Ref	Auditable Unit Points of Focus	Q1	Q2	Q3	Q4	Comments
A	**Corporate systems / Cross Cutting Reviews**					
A.1	**Finance Systems** **To cover the following on risk basis** • General Ledger • Payroll • Collection Fund (Council Tax and NNDR) • Housing Benefits • Debtors • Creditors			✔	✔	**Payroll, Debtors and Creditors** The scope has been agreed and work has been undertaken during November and December. Given the change in finance system for the next financial year (FY 16/17), we have agreed that certain elements of the General Ledger review will not be required for FY15/16. **Housing Benefits** The scope has been agreed and work was undertaken during November and December.

						Collection Fund The scope has been agreed and work will be undertaken during December and January as anticipated and previously agreed.
B	**Department**					
B.1	**Programme Management** Ongoing support to consider programme management and key ways of working on major programmes across the council, to be agreed during the plan year. Key projects include: • Graven Hill • Bicester Town Centre Redevelopment • Build Programme • New Finance System			✔	✔	We have had ongoing communications and we have agreed in principal a scope to look at the new finance system implementation and have agreed to look at programme management aspects alongside business continuity and system aspects (see B.3 below). We have a detailed scoping meeting with IT managers on 12 January 2016 to agree specific areas and scope. We have planned delivery of this review for mid/late February before the go live implementation of the new finance system.
B.2	**Risk Management/Governance** Review the adequacy of risk management arrangements within the Council and we will provide you with a view on your Joint Risk Management arrangements.				✔	We have had ongoing communications and discussions with the Acting Corporate Performance Manager and Performance Information Officer in relation to the planned review for 2015/16. We have shared an initial draft for comment and we plan to deliver the review at the same time as our additional risk management training (February 2016). See details in risk management training section below.
B.3	**IT** **General Controls** Review controls around key IT controls on selected systems **System Reviews** We can help support or review around key system changes from a variety of aspects including: system configuration, application and database controls and reporting configurations. **Cyber Security**			✔	✔	As detailed in B.1 above, we have had ongoing communications and we have agreed in principal a scope to look at the new finance system implementation and have agreed to look at programme management aspects alongside business continuity and system aspects (see B.3 below). We have a detailed scoping meeting with IT managers on 12 January 2016 to agree specific areas and scope. We have planned delivery of this review for mid/late February before

	We view cyber security through a rounded approach and is designed to provide you with confidence: in your people, technology and connections, how you manage risk, set priorities and respond to an incident or during a crisis. Our approach typically begins with an assessment of your current capability and a recommendation of areas for improvement.					the go live implementation of the new finance system.
B.5	**Service Redesign / Compliance Reviews** To review current service plans and operational design and arrangements to benchmark performance on selected service. • Planning and the Economy • Regeneration and Housing • Environmental Services			✔	✔	We have had ongoing communications and discussions with relevant officers in relation to our planning review for 2015/16. We have shared an initial draft for comment and plan to deliver the review during February 2016 as previously agreed and discussed with management.
B.6	**Finance Year End Support** To support you at year end. This support will include a critical review of your draft accounts, accountancy support and attendance at your close down group.					This is directed by areas of support required for your annual statement of accounts. We will await any communication around areas of support or review that may be required.
VE	**Value Enhancement**					
VE.1	**Joint Working and Transformation Programme** Review of the governance and business cases for efficiencies and savings for three way working. • Governance Models • New Ways of Working				✔	We have had ongoing communications and discussions with the Business Transformation Manager in relation to our review for 2015/16. As agreed we usually plan to deliver this review over 2 weeks from mid-March in each plan year, to allow for any developments or areas of focus that may be of most benefit to the Transformation Programme. We initially intend to review latest governance and risk management aspects of the programme and then any other areas that are of most importance to be agreed.
PM	**Project management**					
PM.1	Project management	✔	✔	✔	✔	

PM.2	Contingency					We aim to have an element of contingency in each plan to respond to any emerging risks in each plan year.
	Total Cost	**£47,355**				

Financial system reviews update at 7th January 2016

Payroll, Debtors and Creditors

Work has been reviewed and substantially completed and is in the process of follow up and draft reporting. There is some follow up in relation to payroll testing that is being completed during the w/c 4 January. At this point, we do not anticipate any high risk issues and we are not expecting to issue a high risk rated report.

We amended the scope of our debtors review to incorporate aged debt for this year following discussions with management.

Housing Benefits

Work has been completed and is in the process of review and draft reporting. There are no individual high risk issues and we anticipate that the overall report will be rated as low risk.

Collection Fund

Work has commenced, however, we have been delayed due to staff sickness. We have notified relevant audit sponsors and contacts and are looking to agree a mutually convenient time to complete. We have held initial meetings, updated our understanding of controls and selected main samples, so we expect to complete during January.

Other reviews update at 7th January 2016

IT and Programme Management

We have a detailed scoping meeting with IT managers on 12 January 2016 to agree specific areas and final scope. We have planned delivery of this review for mid/late February before the go live implementation of the new finance system.

We will update the committee further verbally, where there are significant departures from the areas detailed, as required during the meeting.

Service Redesign / Compliance Reviews

We have shared an initial draft scope for comment and plan to deliver the review during February 2016 as previously agreed and discussed with management.

Risk Management/Governance

We have shared an initial draft scope for comment and we plan to deliver the review as planned and at the same time as our additional risk management training (February 2016).

Joint Working and Transformation Programme

We plan to deliver this review over 2 weeks from mid-March to allow for any developments or areas of focus that may be of most benefit to the Transformation Programme.

We initially intend to review latest governance and risk management aspects of the programme and then any other areas that are of most importance to be agreed with the Business Transformation Manager.

Additional work

Risk management

As previously reported, we have been asked about the provision of risk management training for the senior management team and staff under service heads that have responsibility for risk.

We held a detailed discussion on 5 November 2015, around the nature and format of anticipated training and any input for ongoing updates and needs, with the Acting Corporate Performance Manager and Performance Information Officer. We have also discussed initial budget. We have now been provided with a selection of indicative dates during February.

The training will take the form of workshops and most productively be in four sessions over a couple of days during February to coincide with the council's service planning timetable and to be of maximum benefit.

We will also look to support the Council in establishing the format and content of ongoing risk management training, updates and induction that will be required. We have included provision alongside our risk training to provide support in developing a computer based training package, utilising your existing IT and infrastructure, so that the Council owns the intellectual property going forward.

We will base our input on a detailed discussion following our risk training around the level of hours and technical input required and available resources the Council wants to assign to the project.

As this is outside of our audit plan, we have drafted an additional engagement letter which will be sent for formal agreement and signing to the Head of Transformation during week commencing 11 January 2016.

We will keep the committee informed of any further additional work and costs that is agreed in relation to risk management.

Appendix 1 – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre ('PSRC') produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

All publications can be downloaded in full at ***www.psrc.pwc.com*** and we have included the most relevant and recent listed below alongside this report for your further reference.

We also have a dedicated public sector twitter account with the latest information, comments or links to recent publications or blogs.

Twitter
PwC UK Public Sector
@pwc_ukgov

Good growth for cities 2015: Our report on economic wellbeing in UK urban areas
The economic outlook in 2015 has improved, with rising employment and a welcome return to growth of real earnings, which means that the public is finally starting to feel the benefits of recovery.

This is our 4th Good Growth for Cities report where we measure the performance of the UK's largest cities against a basket of ten categories defined by the public, and business, as key to economic success and wellbeing.

This year, we've also looked at the 'Northern Powerhouse' for the first time, which can be used in the future to assess the success of the move to devolve powers from a good growth perspective.
To deliver on the potential of decentralisation however, local institutions need to have the local leadership, capacity and capability as well as the accountability arrangements in place to support their case to government for further powers - and ensure good growth outcomes are achieved.

As detailed in our previous update report to the December committee and still of relevance and interest.

Full speed ahead: connecting our cities and regions
Against the backdrop of a cross-party commitment to further devolution and the prospect of new investment in major national infrastructure projects - such as HS2 and new airport and road capacity – we held a series of roundtables with transport stakeholders in both the public and private sectors across the UK, facilitating discussions with those on the frontline of policy and delivery on what is needed over the next five years to ensure a lasting step change in transportation within and between our major towns and cities.

In association with Smith Institute, this Talking Points discusses how failure to invest in a more integrated and better connected transport network could leave UK plc at a competitive disadvantage. In particular, we wanted to discover more about the scale of the issue and explore what can be done to improve connectivity between cities and regions. We've found:

- There is no 'one size fits all' solution and the future is about localised decision-making.
- Transport devolution is about more than just improving local transport systems. It is also about connecting local and city-region transport networks.

- Progressive transport planning and funding must seek to integrate transport with local and city-region plans for jobs, housing and growth. The aim is not only to improve connectivity, but to also maximise the socio-economic benefits of all types of transport investment.
- The biggest challenge now is securing the capital investment that is needed to meet future demand and/or looking for alternative sources of funding.
- When balancing the development of new projects and maintaining and improving existing transport, transport appraisal and analysis will be required in helping making key decisions.
- Connectivity between all places will continue to be critical to our future prosperity

To own or not to own: realising the value of public sector assets
The drivers of fiscal austerity will continue to frame decisions, and the ongoing reform of public services, for the rest of this Parliament.

Setting out the Spending Review, the Chancellor emphasised the importance of casting the net of efficiency widely, challenging government departments to “examine their assets and consider how they can be managed more effectively, including considering the role of privatisation and contracting out where assets do not need to be held in the public sector.”

Government has an asset base of £1,300 billion to support £700 billion of public spending. While recognising some obvious differences in objectives and function, most private sector organisations, even the most capital intensive such as oil companies, have ratios of assets to revenues of less than 1:1. Our Talking Points considers how the government and public sector can best realise the value of its assets looking towards the 2015 Spending Review – and beyond.

Beyond letting go
Embedded in the UK Spending Review is a commitment to further decentralise functions and budgets in order to maximise efficiency, drive local economic growth and productivity, and support the integration of public services. Decentralisation has implications not only for the local and combined authorities seeking deals but also for how central government operates.

Central government has a significant role to play as an enabler for decentralisation, playing its part in moving to more collaborative relationships between central and local and ensuring that the momentum behind devolution continues, while maintaining sufficient oversight to manage risk and network issues. This will be a challenging balance to strike, particularly given the asymmetrical nature of decentralisation, with different places bestowed additional powers and responsibilities in relation to their appetite, capacity and capability.

Our ‘Beyond letting go’ Talking Points explores a number of areas where central government has a critical role to play in creating and operating in a successful devolved environment. Together these add up to a fundamentally new role for Whitehall. In each case, central government needs to strike a balance between genuinely empowering local areas where the costs, benefits and solutions are localised, and maintaining appropriate national oversight.

Cherwell District Council

Accounts, Audit and Risk Committee

20 January 2016

Corporate Fraud Team Quarterly Update

Report of Head of Finance and Procurement

This report is public

Purpose of report

To provide members of Accounts, Audit and Risk Committee with an update on the joint Corporate Fraud team including progress made on the team's business plan for 2015-2016.

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of the report.

2.0 Introduction

2.1 This report is to update members on the joint Corporate Fraud Investigation team and the progress that has been made on the objectives contained in the team's business plan for 2015-2016.

3.0 Report Details

Background

3.1 Members may recall that the Housing Benefit fraud investigation function at both Cherwell District Council (CDC) and South Northants Council (SNC) transferred to the new DWP Single Fraud Investigation Service (SFIS) from 1st February 2015.

3.2 Following the implementation of SFIS the following areas of work remain with the local authority:

- Council Tax Reduction fraud investigations
- the Single Point of Contact for Department for Work and Pensions including compilation of information and evidence requested by DWP in support of a Housing Benefit fraud investigations

- amendments to any HB claims following an investigation and the collection of any overpayments
- participation in the National Fraud Initiative (NFI) for both benefits and Council Tax
- Corporate fraud and error investigations, including tenancy fraud, Council Tax discount/exemption fraud, NDR error and avoidance and procurement fraud.
- Housing Benefit Matching System (HBMS) for both councils.

3.3 A business case was agreed to implement a joint fraud team working across CDC and SNC to protect the councils from fraud and error and to protect the public purse.

Corporate Fraud Team

3.4 Members may recall that the Corporate Fraud Team (CFT) comprises of two posts, a Senior Corporate Fraud Investigator (SCFI) who has been in post since 1st February 2015 and a Corporate Fraud Investigator (CFI) who took post on 23rd March 2015. The Senior Corporate Fraud Investigator is currently on maternity leave and an experienced temporary Senior Investigator has been sourced to provide maternity leave cover. An additional resource to help with the National Fraud Initiative at both authorities is still in place funded by the DCLG grant highlighted at 3.7 of this report.

3.5 In the first 12 months the focus is on building the team, raising awareness of corporate fraud and establishing internal and external partnerships as well as completing the National Fraud Initiative for both Councils.

Update on the Corporate Fraud Business Plan 2015-2016

3.6 Members may recall that a Business Plan was agreed to underpin the work of the team during 2015-2016. Following feedback from members of this Committee the format of the plan has been changed and it has been updated for the third quarter of 2015-2016. A copy is shown at Appendix 1 of this report. The highlights are as follows:

- National Fraud Initiative (NFI) has provided a significant volume of work for the team. NFI is split into two distinct areas: flexible matching and standard NFI matching. A breakdown of the matches and the outcomes are shown in the report at Appendix 1. At the time of writing this report a total of £126,897.14 has been rebilled to customers in 2015-2016 as a direct result of NFI. Further results are due to be added in respect of the Cherwell matches. NFI continues to be a main focus for the team with a further round of flexible matches for Council Tax and Electoral roll due to be delivered in early January 2016 and the core NFI matches due in February 2016.
- A new IT system, Intec Debtor Information System (iDIS), has been procured for a period of 12 months. This is a web based system that allows for centralised viewing of data without the need to wait for external reports from data matches. It shows all the information available on particular individuals and addresses based on simple searches. The licence allows for unlimited users and the system can be used by other departments such as debt recovery and housing. The system was installed in September 2015. There were some initial teething problems that have now been resolved. Data has been provided by the Housing Options team at SNC detailing all persons who are currently on the waiting list.

We are currently awaiting data from Council Tax and the Electoral roll to match against the housing list data.

- The introduction of TrustID scanners has recently been agreed for a trial period of 12 months. This software is a reliable way to scan and validate identity documents such as passports, visas and driving licences and allows us to carry out checks at a reduced price and so reduce exposure to fraud and error. At the time of writing this report the technical specification is with the IT department and it is anticipated that the system will be implemented and rolled out in early 2016.
- One of the aims of the team is to develop collaborative working. Partnership working with Social Housing Providers has been successful to date although it is acknowledged that further development is required during 2106-2017. A number of meetings have been held with three of the local housing providers: Sanctuary Housing, South Northants Homes and Paradigm Housing.
- A review of all the policies underpinning the work of the Corporate Fraud Team is underway. At the time of writing this report the following policies have been reviewed: Counter Fraud Policy, Anti-Fraud and Corruption Strategy, Prosecutions and Sanctions Policy and Whistleblowing Policy. The remainder of the policies will be reviewed in quarter four and will be presented to members of this Committee for approval in March 2016.
- The Single Point of Contact role enables Housing Benefit enquiries to be made by DWP and facilitates the exchange of information between the two Councils and DWP. Funding has been received from DWP totalling £4,500 to cover the cost of resources required to offer this role – this equates to around one hour a day. In reality this does not cover the commitment required or time taken to fulfil the requirements of the Service Level Agreement.
- The team have received a number of referrals which have resulted in investigations. A summary of some of the casework is shown at Appendix 3 of this report.

DCLG Funding

3.7 Members may recall that a successful bid was submitted to DCLG for funding to support the work on corporate fraud and £129,625 was secured to help in achieving the following:

- Implementation of a shared fraud team including the cost of temporary fraud officer to assist with NFI.
- Progression of a project on shared IT and data sharing and, as outlined in the report, iDIS system has been procured and we are looking to introduce TrustID scanners.
- Introduction of shared practices and procedures
- Investigation and development of joint working with internal and external partners on fraud investigation
- Training and development for the team
- Supporting new incentives such as the joint Business Support team to minimise fraud and error.

3.8 DCLG are monitoring the work carried out through progress reports to ensure the funding is being used as set out in the bid document. A second update report was sent to DCLG in October 2015 (copy at Appendix 2).

Next Steps

3.9 The Corporate Fraud team will be looking to complete the current NFI matches (Single Person Discount and Housing Benefit) for both authorities and to then begin work on the new matches that are expected in early 2016

3.10 Further development of the Incase and the iDIS systems will take place during quarter 4 of 2015-2016.

3.11 The Senior Corporate Fraud Investigations Officer will continue to review the policies that underpin the team's work. The updated documents will be presented to members of this committee for approval in March 2016. The Senior Officer is also in the process of arranging an anti-fraud and error awareness day for all partners which will be held in early 2016.

4.0 Conclusion and Reasons for Recommendations

4.1 Following the introduction of SFIS an opportunity was presented to review the way in which corporate fraud investigations should be undertaken across both councils in order to protect them from fraud and error and to protect the public purse. Members are asked to note the contents of this update report.

5.0 Consultation

5.1 Consultation on the original business case took place with members of Joint Arrangement Steering Group and reports were received by Executive.

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To not to have an anti-fraud presence at each council. This would expose both councils to the risk of fraud and error, and this in turn may pose a risk to the public purse.

7.0 Implications

Financial and Resource Implications

There are no financial implications directly arising from this report

Comments checked by: Martin Henry, Director of Resources,
martin.henry@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 None arising as this is an information report.

Comments checked by: Kevin Lane, Head of Law and Governance
kevin.lane@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

This links to the Council’s priority of an accessible value for money council.

Lead Councillor

Councillor Ken Atack, Portfolio Holder for Financial Management

Document Information

Appendix No	Title
1	Updated for Quarter 3 2015-2016
2	DCLG update report October 2015
3	Case studies
Background Papers	
None	
Report Author	Belinda Green (Welfare and Debt Advice Manager)
Contact Information	Belinda Green 01327 322182 belinda.green@southnorthants.gov.uk

This page is intentionally left blank

Appendix 1

Corporate Fraud Business Plan

2015-2016

Contents

1. Introduction

2015-2016 will be a year of development and enhancement in the field of corporate anti-fraud activity at South Northants and Cherwell District Councils.

With the transfer of Housing Benefit fraud investigations to the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS) the newly formed Joint Corporate Fraud team will be focussing its approach on antifraud and error across the two authorities and work will involve promotion of anti-fraud and error, training, education as well as prevention, detection and investigative work.

Local authorities have a duty to safeguard public funds and to ensure that any public money is used appropriately. South Northants and Cherwell District Councils have a zero tolerance to fraud and error.

This plan has been produced to document the work of the Corporate Fraud team and outline the objectives for the team in its first year 2015-2016.

2. Aims and objectives

The Corporate Fraud team was formed in April 2015 and forms part of the Welfare and Debt Advice team in the Finance Division. It is a joint team and consists of two officers; a Senior Corporate Fraud Investigations Officer and a Corporate Fraud Investigations Officer. The aim of the team is to provide an effective corporate fraud service to both Councils by working closely with internal and external partners and agencies.

In 2015-2016 the team will concentrate on the following main areas:

- Develop the new team as we leave behind Housing Benefit fraud and develop a wider corporate anti-fraud service for both Councils. This includes training and development for the officers.
- Taking advantage of the shared services arrangements and DCLG funding to develop the team and to promote fraud and error awareness and prevention across the two Councils.
- Develop IT systems to support the work of the team
- Strengthen the fraud and error management processes and governance by reviewing the supporting policies and procedures seeking agreement for any changes from Audit Committee at both Councils

3. Working in partnership

The Corporate Fraud team will proactively work with all services within the Councils to offer an anti-fraud and error service and to identify and investigate any fraudulent activity.

The team will also liaise with other external partners and agencies such as:

- Internal and External Audit
- The DWP
- HM revenues and Customs
- Housing Associations
- The Police
- National Fraud Agency
- Other Local Authorities
- Any other organisations

4. The Corporate Fraud team's focus in 2015-2016

- Housing fraud
- National Fraud Initiative matches for both Councils
- To be a single point of contact for DWP SFIS team
- Housing Benefit Matching Services
- Council Tax (Reduction Scheme and discounts)
- Procurement
- Any other emerging referrals and issues.

5. Performance Measures and reporting

The team will measure success by the following:

- Monitoring the level of National Fraud Initiative matches received and measure the results (outputs) to show success rates.
- Reporting to the Welfare and Debt Advice Manager on a regular basis on key findings. This will in turn be reporting to the Finance Management team and the Heed of Finance and Procurement.
- Production of a quarterly report to both Audit Committees
- Providing results to other bodies as required.

South Northamptonshire Council

Cherwell DISTRICT COUNCIL NORTH OXFORDSHIRE

South Northants and Cherwell District Councils

Corporate Fraud Business Plan 2015-2016

Objective	Actions required:	Targets and completion dates	Update for quarter 3
<u>Objective 1 and objective 2</u> To Complete and confirm outcomes of National Fraud Initiative (NFI) referrals for Council Tax and Housing Benefit for both South Northants Council (SNC) and Cherwell District Council (CDC)	To look at each of the following matches and take actions as required CDC Total number of Single Person Discount (SPD) matches received: 811 Total number of HB matches received: 1012 SNC Total number of Single Person Discount (SPD) matches received: 1522 Total number of HB matches received: 361 Total matches 3714	Weekly target of 50 matches to be looked at. All matches to be completed and reported to NFI by 30th September 2015	**Single Person Discount matches** <u>CDC</u> Number received – 811 Number processed – 775 Number in progress – 36 <u>SNC</u> Number received – 1522 Number processed – 1509 Number in progress – 13 **Council Tax rising 18s** <u>CDC</u> Number received – 88 Number processed – 43 Number in progress – 40

			<u>SNC</u> Number received -117 Number processed - none Number in progress – 117 Total additional income £126,897.14 **Housing Benefit** <u>CDC</u> Number received – 1031 Number processed – 966 Number in progress and referred to SFIS - 65 <u>SNC</u> Number received – 1331 Number processed – 393 Number in progress and referred to SFIS – 50 Number outstanding - 888

Objective	Actions required:	Targets and completion dates	Update for quarter 3
Objective three To continue with investigations on 23 cases already opened CDC	To complete the investigations that have been opened	For investigations and action to be completed by 31.10.2015	All cases opened prior to Corporate Fraud team starting investigation (01.02.2015) have been investigated and closed.
Objective four To consult with SNC Interim Revenues Manager on the possible introduction of financial penalties at SNC for Single Person Discount error, prepare reports for Head of Finance and Procurement and for elected members as appropriate	To consult with SNC Interim Revenues Manager as to the implementation of penalties for Single Person Discounts errors To produce a report for consideration by the Head of Finance and Procurement	Report for consideration by 31.1.2016	Penalties will not be introduced in the financial year 2015-2016 for a number of reasons including financial impact on collection rates in year. New target date of 31.1.2016 now agreed for a report to be produced to consider introducing in 2016-2017. **Please note: penalties are in place at CDC**

Objective	Actions required:	Targets and completion dates	Update for quarter 2 and comments
Objective five To successfully recruit to Corporate Investigation Officer post with training/induction plan in place.	To undertake a recruitment exercise To successfully appoint to the post To develop a training/induction plan for successful officer	To have officer in post by the **31.03.2015** For training to be completed by **31.09.2015**	Officer has been in post since April 2015. Officer has undertaken training in all systems used by the team, Housing Fraud training, Universal Credit training and Council tax and NDR training.
Objective six To investigate available systems to support fraud work including data sharing and draft any related business case for development	To investigate the systems that are available Draft a recommendation report Procure system Implementation plan in place	30th July 2015 for initial procurement 31st December 2015 for IDIS 31st January2016 for TrustID	IDIS data hub system procured for 12 months from 04/08/2015 System will allow for data to be matched, credit checks and checking of credit reference data. The software was installed on 30th July and training took place on the 30th July with a further training day held on the 15th October System went 'live' on 1st November 2015. Data has been received from SNC Housing and awaiting elections and CT data to match against housing data. TrustID software and scanners have been procured and are being trialled for 12 months. This will start in January 2016.

Objective	Actions required:	Targets and completion dates	Update for quarter 3
<u>Objective seven</u> To work partners and agencies	To identify possible partners to work with on anti-fraud and error. Approach partners Develop relationships	30th October 2015 for initial discussions	Following internal meetings with the following teams: Council Tax, Housing, Procurement, Customer Services the following progress has been made: • A review is underway of student exemptions at CDC. 8 addresses were identified for investigation which are now in progress. If investigations are successful and exemptions removed this will result in increased liabilities totalling £10,000 • Charities commission has been approached regarding data matching against their records • Data has been received from SNC Housing list. Awaiting a match via IDIS Informal external partnerships have also been formed with South Northants Homes, Sanctuary Housing and Paradigm. This has resulted in three tenancy fraud investigations – 2 have been successfully concluded and two tenancies returned to the housing providers. This has generated a non -cashable ‘saving’ of £18,000 per property

Objective	Actions required:	Targets and completion dates	Update for quarter 3
Objective eight Produce a communication plan to increase fraud awareness and prevention both internal and external	Consider possible methods of communications Develop a timeline for communications to be made. Develop a measure of success (number of referrals received)	30th June 2015 for draft plan Communications will be through year	Article has been placed in In Brief at both Councils in August 2015. Further article is planned for April 2016. Article placed in SNC Review and Cherwell Link Work has started on updating both websites A twitter account has been set up following consultation with the Communications team Fraud awareness session planned for February 2016
Objective nine To review and update as required corporate fraud policies	To review the policies that underpin the Corporate Fraud team work To make recommendations for any changes Prepare reports for Audit Committees to consider the changes	Originally 30th September 2015.	The following policies have been reviewed and are currently in draft: • Anti-fraud and anti-corruption policy • Counter Fraud policy • Prosecution and Sanction Policy • Whistleblowing Policy • Fraud response plan. Other policies including anti-money laundering policy and Cyber Crime Policy will be reviewed in January 2016. All draft policies will be presented to members at March 2016 meeting

Objective	Actions required:	Targets and completion dates	Update for quarter 2 and comments
<u>Objective ten</u> To agree performance targets and to update on the performance against target	Establish targets Monitor targets regularly Report to senior managers Report to Audit Committee	Ist April 2015 for targets to be agreed and then quarterly updates.	Joint SNC/CDC targets 1. To achieve CTR savings of £12,000 in 15/16 2. To achieve SPD savings of £12,800 in 15/16 3. Housing allocation £18,000 4. Grant fraud £19,000 5. NDR £10,000 Q3 update 1. Target met and exceeded in Q1 so work has been focussed on other areas 2. £126,897.14 additional billed due to NFI 3. £36,000 4. £0 work underway for Q4 5. £4,000 Running totals for 15-16 1. £24147.39 2. £126,897 extra billed due to removal of SPD 3. £36,000 4. £0 5. £4,000

Department for Communities and Local Government

Counter Fraud Fund: Supporting local authorities to boost their capability and capacity in tackling non-benefit fraud - Progress Report

As you are aware, a condition of the Counter Fraud Fund is for successful bidders to provide details of progress on their projects. Given that your scheme will have been running for just under a year, we would be grateful if you could please provide the details requested below on emerging findings. Once completed, this form should be submitted to counterfraud@communities.gsi.gov.uk by close of play on Friday 23rd October. Any queries should also be submitted to this address.

Project title and lead contact information

Project Title	**Collaborative Working**
Principal local authority name/name of bidding organisation:	South Northants Council
Name of Contact(s):	Belinda Green
Telephone number(s) of the contact(s):	01327 322182
Email address of the contact(s):	belinda.green@southnorthants,gov.uk

Q1(a) Are you still on track to deliver the high level objectives as set out in the original bid, including procurement of goods and services?

YES

Q1(b) If answered 'NO' at Q1(a), please provide supporting details. Otherwise please go to Q2.

Q2(a) Has there been any change in the scope, nature or design within the project compared to the original proposal?

NO

Q2(b) If answered 'YES' at Q2(a), please specify and provide a brief explanation of the nature of the changes and whether it relates to timescales, resources etc. Otherwise please go to Q3.

Q3(a) Is the project progressing with the same partners as set out in the original bid?

YES

Q3(b) If answered 'NO' at Q3(a), please provide brief details below. Otherwise, please go to Q4.

Q4(a) Please provide details of progress against spend in table below.

Description of expenditure (as per bid). Please add extra rows if necessary.	2014/15 Funding allocated (£)	**2014/15 Funding spent (£)**	2015/16 Funding allocated (£)	**2015/16 Funding spent (£)**
	2014/15 Funding allocated (£)	**2014/15 Funding spent (£)**		
Counter fraud officers	£17,400	**£9,040**	69,600	**69,782**
It software and system development	£4,125	**£4,900**	16,500	**16,000**
Training and development	£2,000	**£2,250**	8,000	**5,000**
Subscriptions	£2,000	**£2,000**	8,000	**3,000**

Q4(b) Have all the funds awarded for the project been used for the purposes as outlined in your original bid?

YES

Q4(c) If answered 'NO' at Q4(b), please provide brief details below. Otherwise, please go to Q5.

Q5(a) Please provide details of savings realised from the project to date in the table below.

Description of financial saving	Projected financial saving (£)				
	2015/16	2016/17	2017/18	2018/19	2019/20
Original forecast	143,800	174,600			
Revised actual/forecast	143,800	174,600			

Q5(b) Please also confirm whether the estimated savings for 2015-16 as set out out in the original bid application is on track.

YES

Q5(c) If answered 'NO' at Q5(b), provide details of any divergence and the key factors for any changes. Otherwise please go to Q6.

Q6. The Department for Communities and Local Government promotes information sharing and learning from each other and we would like to be able to share any emerging best practices or emerging success stories from the Counter Fraud Fund to encourage others to learn from the examples. We are particularly keen to share examples where groups of local authorities have formed successful partnerships working collaboratively. **Given your project has been running for a while, please let us know if it has delivered any demonstrable successes so far and if any of the wider benefits (financial and non-financial) identified in your original bid have yet been realised, including any particular issues raised at any stage of the project?**

The funding bid was based on establishing a shared Joint Corporate Fraud Team across South Northants and Cherwell District Councils building on the the successful shared service history of the two councils. The Joint Corporate Fraud team has been in place since April 2015 and we have successfully recruited two officers to the team and training plans are in place . The work of the team is underpinned by a service plan which has been agreed by Audit Committee at both councils and the members also receive regular updates. There have been a number of successes to date. The team now have a shared IT system across the two councils and have just procured a new data matching system initially for a period of 12 months. Policies and procedures are in the process of being reviewed and members will be asked to consider and approve a joint anti fraud and error framework in

Thank you for completing this progress report.

Please send completed returns to counterfraud@communities.gsi.gov.uk by close Friday 23rd October 2015.

Corporate Fraud Update
Quarter Three 2015-2016
Case Studies

Case Study 1

A referral was received by the Corporate Fraud team (CFT) from a member of staff. The allegation was that the owners of a property were trading as a bed and breakfast but not paying Business Rates (NDR) for the annex from which they were trading.

A visit was made to the property and it was established that a business was running from the annex

The CFT liaised with colleagues in Planning who confirmed that planning permission has also been breached.

The decision was taken that the annex was too small to bring into the NDR list so the CFT referred to the Valuation Office to get the annex banded for Council Tax back to 2012. Once this banding is received additional income will be generated.

Case Study Two

A referral was received from a member of the public regarding the incorrect award of a Single Person Discount (SPD). Evidence was collected and examined and it confirmed that a partner had been living at the property since 2010.

The CFT carried out an interview under caution with the customer and are currently working with Legal as to the next steps.

The customer had received SPD to which he was not entitled of approximately £2,000.

Case Study Three

A customer receiving Council Tax Reduction (CTR) started work in 2013 but did not advise the Council of the change. The customer was interviewed under caution and admitted immediately that he knew it was a change that he should have notified to the Council.

The CFT decided against prosecution as the customer has mitigating circumstances but a local caution was issued.

Excess CTR of £2,000 will be recovered.

Case Study Four

A case was referred to the CFT by Planning team. Documents presented in Court proceedings (to which the Council was not a party) from the SNC Planning team were thought to be fraudulent. The Senior Corporate Fraud Investigator met with Legal and the Director of Resources regarding the case.

It was established that the documents were forgeries and the case was reported to the Police and the Action Fraud website.

Following further investigations all officers agreed that the documents were falsified but that there was an absence of any proof as to where the fraud originated and who produced the fabricated documents in the first instance. The advice from Legal was that this would present difficulties if we were to seek any criminal proceedings as there was no evidence to suggest who had actually perpetrated the fraud.

The matter is currently with the Police for consideration.

Cherwell District Council

Accounts, Audit and Risk Committee

20 January 2015

Draft Treasury Management Strategy 2016/17

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To submit the draft Treasury Management Strategy Statement for 2016/17.

1.0 Recommendations

The meeting is recommended:

- To note and comment on the draft Treasury Management Strategy 2016/17.

2.0 Introduction

2.1 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment.

2.2 The Council re-appointed Sector Treasury Services Limited (now Capita Treasury Solutions Limited and branded as Capita Asset Services – Treasury Solutions) as its Treasury Management advisor in January 2013. The highest standard of stewardship of public funds remains of the utmost importance to the Council.

3.0 Report Details

Draft Treasury Management Strategy Statement 2015-16

3.1 The proposed draft strategy for 2016/17 (Appendix 1) has been updated. It is based upon the views of the Council's Treasury Management Team and has been informed by Capita Asset Services's market forecasts.

3.2 In consultation with Capita Asset Services and with full reference to the CIPFA Code of Practice, the Council has reviewed its risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.

3.3 The draft strategy meets the requirements included within the CLG's Guidance on local government investments.

Icelandic Investments

3.4 At the last meeting members asked for an update on the Council's remaining investments in Iceland including the costs incurred to ensure that leaving the investment where it is, is still the correct course of action.

3.5 As a reminder the Council has an Icelandic Kroner (ISK) Escrow of £1.47m (£730k capital, £738k accumulated interest), which it is presently unable to access due to capital controls applied by the Icelandic Government.

3.6 The Council could if it wished sell its Escrow through an auction, they are held by the Icelandic Government periodically and the Council are alerted by its advisers (Local Government Association/Bevan Brittan) when they are going to happen. There is currently no date set for an auction.

3.7 The Escrow is currently earning 4% interest on its whole value and there are at present no known threats to the either the capital or accumulated interest. The costs incurred by the Council to the LGA are now marginal, less than £500 for the period Feb 15 – Oct 15 as they now operate essentially a monitoring role. This is clearly significantly less than the interest earned (circa £60k pa).

3.8 The driver therefore should be the need for the money i.e. when will we go into debt and what will the cost of the debt be (Higher or lower than 4%?). We are therefore keeping a close eye on our cash flow, interest rates and the likely date of a future auction.

4.0 Conclusion and Reasons for Recommendations

4.1 There is a requirement to produce a revised Treasury Management Strategy prior to the start of each financial year.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 There are no alternative options – this is a requirement placed upon all local authorities.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Comments checked by: George Hill, Corporate Finance Manager
George.hill@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by:
Kevin Lane, Head of Law & Governance 0300 0030107
Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by: Jo Pitman, Head of Transformation
Jo.pitman@cherwellandsouthnorthants.gov.uk

Equality and Diversity

7.4 There are no equality and diversity issues arising directly from this report

Comments checked by: Jo Pitman, Head of Transformation
Jo.pitman@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	Treasury Management Strategy 2015-16
Background Papers	
Report Author	Paul Sutton, Head of Finance and Procurement
Contact Information	Paul.sutton@cherwellandsouthnorthants.gov.uk

CHERWELL DISTRICT COUNCIL
Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Statement

2016-17

1. Introduction

1.1 Background

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.

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.

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 the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Report 1 - Treasury Strategy including Prudential and Treasury Indicators (This report) - The first, and most important report 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).

Report 2 - A Mid Year Treasury Management Report (if applicable) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. However, the Accounts Audit and Risk Committee will receive quarterly update reports.

Report 3 - An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Accounts Audit and Risk Committee.

1.3 Treasury Management Strategy for 2016-17

The strategy for 2016-17 covers two main areas:

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.

Capital Issues

- the capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) strategy

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.

1.4 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Capita Asset Services; and
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services,Treasury Solutions 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 subjected to regular review.

2. Capital Prudential Indicators 2016/17 – 2018/19

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

2.1 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 £'000	2014/15 Actual	2015/16 Latest Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	32,204	63,808	29.504	12,250	940

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

Capital expenditure £'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	32,204	63,808	29,504	12,250	940
Financed by:					
Capital receipts	-26,469	-19746	-580	-2258	
Capital grants	-389	-457	-375	-375	-375
Reserves funded through Revenue	0	0	0	0	0
Donated asset Contribution	0	0	0	0	0
External Funding	0	-260		0	0
Net financing need for the year	**5,346**	**43,345**	**28,549**	**9,617**	**565**

2.2 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 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 assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0 of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	**2014/15 Actual**	**2015/16 Latest Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Capital Financing Requirement					
Total CFR	**5,346**	**43,345**	**28,549**	**9,617**	**565**
Movement in CFR	**0**	**48,691**	**-14,796**	**-18,932**	**-9,052**

Movement in CFR represented by					
Net financing need for the year (above)	0	48,691	-14,796	-18,932	-9,052
Less MRP/VRP and other financing movements	0	0	0	0	0
Movement in CFR	**0**	**48,691**	**-14,796**	**-18,932**	**-9,052**

2.3 Minimum revenue provision (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.

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

- **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);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

The Council has established a company to which it is providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party by the Council.

The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2026, with interest paid as per the contract.

Once funds are returned to the Council, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (10 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

To ensure that any required changes to this approach can be addressed promptly and prudently the Council has adopted a policy providing delegated authority to the Service Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

2.4 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.).

2.5 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. The Council is asked to approve the following indicators:

2.6 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.

%	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Non-HRA	-1.22	-0.29	3.24	3.36	3.36

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

3 Borrowing

3.1 The council is currently debt free however the capital programme as detailed in section 2 demonstrates that capital resources are diminishing. Future projects may require the need to borrow and for the council to enter into long term debt arrangements.

3.2 The Head of Finance and Procurement will monitor this situation and if and when there is a requirement to borrow outside of the operational and authorised limits as detailed below an updated version of this strategy will be prepared for member approval.

Treasury Indicators: limits to borrowing activity

3.3 The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	£15m	£50m	£50m	£50m
Other long term liabilities	£0	£0	£0	£0
Total	**£15m**	**£50m**	**£50m**	**£50m**

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

1. 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 this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	£20m	£55m	£55m	£55m
Other long term liabilities	£0	£0	£0	£0
Total	**£20m**	**£55m**	**£55m**	**£55m**

3.4 Prospects for interest rates

A more detailed interest rate view and economic commentary is at appendices 5.1 and 5.2 if required

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 their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2016	0.50	2.40	3.70	3.60
Jun 2016	0.75	2.60	3.80	3.70
Sep 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
Jun 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
Jun 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40

Economic Outlook
The slowdown seen in the UK economy in Q3 appears to have been a temporary event, if early Q4 survey measures are correct, with both manufacturing and services PMIs having made gains in October. It is probably too early in the quarter to jump to conclusions but analysts are looking for activity levels to improve in coming months, on the back of high levels of consumer confidence, low unemployment and household spending being aided by falling energy costs and food prices.

Q3 US GDP slowed to an annualised 1.5% (subsequently revised to 2.1%), but consumption looks set to remain strong despite weak retail sales in September. The trade deficit widened in August, pointing to net trade having a negative input on GDP growth, while the drag from slowing inventory accumulation was probably even greater.

Eurozone growth has maintained its steady but slow rate at the start of Q4. However, the positive impact of lower commodity prices and a weaker €uro are set to fade, while inflationary pressures are negligible. As a result, the ECB will consider, and likely approve, further policy stimulus at its December meeting.

Chinese authorities cut interest rates to support the economy. Furthermore, in a sign that policy makers are committed to financial reform, they removed regulatory restrictions on deposit rates, the final step in liberalising interest rates.

The initial reading of Q3 UK GDP confirmed a slowing of growth. Real output eased from 0.7% to 0.5%, but recovery remains driven by the services sector. Recession still holds in the manufacturing sector, as the volatile construction sector contracted, outweighing the expansion of industrial production. The October PMIs, however, suggest that growth will gather pace in Q4. The composite PMI had already picked up in September, after a healthy rise in the manufacturing index and a less robust gain in services offset the decline seen in construction.

Firms' investment intentions do not appear to have been affected by the turmoil seen on the markets in August or uncertainty over the Government's promised EU referendum. Instead, they suggest that annual investment growth will remain strong in the months ahead. September was a better month for the high street, with retail sales rising 1.9% m/m, which pushed overall sales for the quarter to a faster pace of growth than Q2, at 0.9%. This expansion is likely to have been helped by a temporary boost from the Rugby World Cup and the late August Bank Holiday may also have supported sales, but it should be noted that the CBI reported sales balance dropped quite sharply in October. Actual levels of consumer spending have dipped, which is a concern, but strong gains in real earnings should support theongoing strength of the consumer recovery.

Mortgage approvals slipped in September but, with mortgage rates remaining low, this should only prove to be a blip.

The overall trade deficit narrowed in August on strong monthly growth in goods and services exports combining with a decline in imports. The gains in goods exports do, however, have to be put in context and are a rebound from the weakness seen in the previous month. If thedeficit were unchanged in September this would leave the overall Q3 deficit considerably higher than that in Q2, at about £11bn, which suggests that there has, at least, been a part reversal of the boost to Q2 growth from net trade. Sterling strength and softer overseas demand will limit export growth and, despite exporters cutting sterling prices to remain competitive, foreign currency export prices have still pushed higher.

Employment rose by 140,000 in the three months to August, pulling the unemployment ratedown to 5.4%. Annualised average weekly earnings growth eased in August but the headline, annualised/three month rate, improved to a healthy 3%. There is little slack left to take up and reductions in unemployment have slowed, while some difficulties in recruiting have fed into earnings growth. Analysts are looking for further labour market improvement and private sector employment intentions remain consistent with healthy jobs growth of around 2%.

Lower fuel costs, on falling oil prices, saw CPI inflation dip into negative territory in September, at -0.1%, and that figure could weaken further in October, with education's contribution to CPI declining and petrol prices falling, as the impact of oil costs continue to feed through. Petrol's negative contribution to CPI inflation will continue to the turn of theyear when oil prices are expected to pick up slightly. In the meantime, inflation will probably average just below zero in Q4. The risks of ingrained low/negative inflation are not seen as significant and households' medium term inflation expectations have flattened, with most indicators now representing steady or slightly upward domestic inflation.

Food inflation will remain weak for a while yet, before picking up in later 2016, and there are upside risks to services inflation as stronger pay growth adds to demand in the sector. The benefits of past sterling strengthening should also start to fade, which should see imported goods inflation increase. While inflation is expected to be stronger in 2016, gains in productivity should ensure that the BoE's 2% target is not threatened for a while yet.
(Capita Asset Services CityWatch Nov 2015)

4. Annual Investment Strategy

4.1 Changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support.

More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process commenced during 2015/16.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

4.1 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, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy.
Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions.

This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

Using the Capita Asset Services ratings service banks' and building societys' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, Council officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally 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 that information on top of the 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 price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

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

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

Investment instruments identified for use in the financial year are listed in ***Appendix 3*** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Additions to the Specified and Non-Specified Investments from 2016/17.

Secured Bonds:

These are bonds with banks and building socities where the investment is secured (covered) on the insttitution's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from 'bail-in'. Where the bond issue or collateral upon which the investment is secured has a credit rating, the highest of the issue/collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Unsecured Corporate Bonds:
These will include loans, bonds and commercial paper issued by companies other than banks/building societies and registered providers.
These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. The credit assessment will be made through the credit rating of the bond and the bond issuer as well as other credit metrics such as credit default swaps of the corporate, if available.

Enhanced Money Market Funds and other Pooled Funds:
These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Pooled funds whose value changes with market prices are generally referred to variable net asset value [VNAV] funds) will be considered and evaluated for use for the proportion of the Authority's cash balances which are estimated to be available for longer than 1 year.

The returns from short-dated cash investments with counterparties meeting the Authority's credit criteria is expected to remain very low over the medium term. Enhanced money market funds and bond, equity income and property funds offer enhanced returns over the longer term than is available from short-dated cash investment, but are likely to be more volatile in the short term. These funds allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period (for example property funds may only have one withdrawal date per month or quarter), their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

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

All other investments are defined as ‘Non Specified’. This category includes investments in the ‘BBB+’ credit rating category, pooled funds without credit ratings and any investment that has a maturity longer than one year or which the Authority intends to holder for a period longer than one year.

Unsecured investments credit rated ‘BBB+’ will be made for shorter periods than unsecured investments with higher credit ratings.

4.2 Creditworthiness policy

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

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

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 suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- 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

Where applicable Money Limit and Time Limit applies to a Bank Group as a whole and not individual Banks within a Group	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks *	yellow	£15m	5yrs
Banks	purple	£15m	2 yrs
Banks	orange	£15m	1 yr
Banks – part nationalised	blue	£15m	1 yr
Banks	red	£15m	6 mths
Banks	green	£15m	100 days
Banks	No colour	Not to be used	
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m per auth	5 yrs
Money market funds	AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m per fund	liquid

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 of 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 our 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.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch . The list of countries that qualify using this credit criteria as at the date of this report are shown in ***Appendix 4***. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

4.4 Investment Strategy

With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock into higher rates of acceptable risk adjusted returns.
The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify an investment portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels for each counterparty will be set to ensure prudent diversification is achieved.

Money Market Funds (MMFs) operating to a Constant Net Asset Value [CNAV] including Enhanced Money Market Funds (EMMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to mitigate operational risk by utilising more than one MMF and Instant Access Deposit Accounts for short term funds.

The Authority will also restrict its exposure to Constant Net Asset Value MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF, as these are funds that are used by investors for liquidity purposes and subject to a high volume of daily trading. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

Investment Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

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:

2015/16	0.60%
2016/17	1.10%
2017/18	1.85%
2018/19	2.10%

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	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£15m	£15m	£15m

For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.4 Icelandic Bank Investments –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730k currently remaining in Iceland. The interest element attributed to the investment made - £738k (as at 31/3/2015) also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

4.5 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.

Appendix

1. Interest Rate forecasts
2. Economic background
3. Treasury Management practice - Specified and Non Specified investments and limits
4. Approved countries for investments
5. Treasury Management scheme of delegation and the role of the section 151 officer
6. Glossary

Appendix 1: Interest Rate Forecasts 2016-2019

Capita Asset Services Latest Rate View (December 2015)

	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017	End Q1 2018	End Q2 2018	End Q3 2018	End Q4 2018	End Q1 2019
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5 Year PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10 Year PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25 Year PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50 Year PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

Capital Economics Latest Rate View (December 2015)

	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%
5 Year PWLB Rate	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%
10 Year PWLB Rate	2.80%	3.05%	3.05%	3.05%	3.30%	3.30%	3.55%	3.55%	3.80%
25 Year PWLB Rate	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%
50 Year PWLB rate	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%

Appendix 2: Economic Background

UK

The first update on Q3 GDP confirmed quarterly growth of 0.5% but the breakdown showed that household spending has continued to provide the main support for growth, while the drag on performance from net trade was the largest that has ever been seen. Business investment posted a solid quarterly pick up to push annual growth to 6.6%, and survey investment intentions indicate that this healthy growth should continue, at least in the near future. The decline in the manufacturing PMI points to the strength seen in the October survey having been a blip, however, the robust services PMI ensured that the composite measure is consistent with growth accelerating a touch in the final quarter. As noted, household spending has proved resilient, rising 0.8% for a third successive quarter, with retail sales volumes gains equally healthy as consumer confidence remains at elevated levels. The high street battle for business has led to heavy discounting, benefiting consumer purchasing power, but depressing nominal retail sales. The BRC shop price index indicates that annual prices fell at an increased rate. Consumer services nominal spending has been more consistent, as has the housing market. Mortgage approvals rose by an annualised 0.9% in October and, with excess demand, prices are likely to be pushed higher.
The trade deficit did improve in September but widened significantly over Q3, from £3.5bn to £8.5bn. As a result, net trade wiped 1.5% from quarterly GDP growth, its greatest negative impact, which more than reversed the 1.3% it added in Q2. Q3 export volumes growth of 0.9% was dwarfed by the 5.5% seen in imports. While the November manufacturing PMI offers upbeat export orders' indications, other surveys remain weak. There are significant headwinds facing exporters, with Sterling rising by 2.5% since the start of October, on a trade weighted basis. Reducing Sterling prices has helped to reduce the impact on sales but margins cannot be squeezed indefinitely, or indeed further.
Strong employment gains in Q3 pulled the unemployment rate down to 5.3%, the lowest for nine years, though it remains above the all-time low of 4.7% seen in 2005. Underlying the headline figure is a less positive picture as part time work drove the job figure rise and self-employment is picking up once more. Furthermore, the timelier claimant count unemployment measure pushed higher in October. Also less positive was the slowing of annual average earnings growth from 3.2% to 2.0% in September, and output per worker has eased in Q3. However, hourly productivity rose by 0.6% q/q, to back up the near 1% gain in Q2. CPI of -0.1% m/m in October was the joint lowest since the 1960's, but this is likely to be the last month of deflation, as inflation should pick up as the sharp decline in petrol prices, a year ago, drop out of the calculations. More stable oil prices should limit further falls in petrol prices in coming months. Food prices should also add to the pot as the influence of previous falls in agricultural commodity prices and Sterling gains in the supply chain starts to wane. Overall, analysts do not foresee inflation breaching BoE target levels in 2016. Monetary indicators point to the pace of recovery being maintained with annual money growth (M4) rising at 4.5% in October, which would equate to annual real GDP growth of 2%. Lending has also picked up, driven by households, but corporate lending remained weak, with growth having only just sneaked into positive territory. Small and Medium-sized Enterprises' (SME) lending has been stronger than that for larger firms and it has been smaller firms where subdued lending has been problematic, as large firms have the benefit of being able to raise funds through bond issuance. Interest rate expectations have been pushed back further with markets looking as far ahead as the start of Q2 2017 for the first Bank Rate rise.

Eurozone (EZ).

The pace of recovery slowed for a second quarter in Q3, but early indications suggest that Q4 has started well and may see some acceleration in GDP growth. The November composite PMI edged higher to its highest level since May 2011, and is indicative of growth picking back up to 0.4-0.5% q/q. Elsewhere, while the Economic Sentiment Indicator was unchanged from October, that is still consistent with annual growth improving to 2%. There are signs that Italy is finally experiencing an improved pace of recovery, but overall gains across the currency bloc have been held back by a slowing in Spain. Low inflation is continuing to benefit consumer spending with Q3 growth relatively strong, despite a soft month in September. A weighted average of retail and car spending points to total spending growth improving in Q3. There is a more complex picture developing in Q4, with a disconnect between the EC measure of retailer confidence, reflective of stellar annual sales growth of over 3%, and national information for October which has been weak, particularly in Germany and France.
Industry data has been weak, but business surveys are optimistic of potential small gains in industrial growth. September saw a contraction in industrial production, but forward looking manufacturing PMIs are upbeat and point to annualised industrial growth of 2% for the rest of 2015. The service sector is in a healthy position and should underpin performance in the bloc, with services' firms confidence consistent with annual growth of over 2%, and the sector PMI pointing to quarterly output growth of 0.5%. Exports have disappointed given that the €uro has weakened quite markedly and that impact will start to dissipate shortly. The trade surplus did widen in September as exports grew faster than imports. However, there has been a slowing in the former in subsequent months and the three month average annual

USA.

Market interest rate expectations have picked up as a December rate rise becomes ever more likely, but thereafter they suggest a slow path of tightening. However, with accelerating wage growth and core inflation there is a risk that rate hikes could occur more rapidly than anticipated. US dollar strength is a function of the relative prospects for monetary policy elsewhere, with the UK position looking more towards a later hike, while in Europe and Japan the likelihood of tightening remain as distant as ever. Despite these developments US equities have recovered the losses posted in late summer.

Asia.

The Chinese economy continues to underperform and threatens to miss the authorities' growth target for the year. Debate about the economy is now focussing on whether it can be turned around in 2016. Some argue that the slowdown is due to the slump in investment, responding to increased overcapacity and debt levels, which would suggest that the troubles in the economy may prove more long term.

(Capita Asset CityWatch December 2015)

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2016. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The uncertainty over when UK interest rates will be raised has weighed on the market, generating some volatility over the past month. However, the increasing view is that it will happen later rather than sooner, possibly as late as April 2017.
This was reflected by the decline in the £/US$ exchange rate and gilt yields falling from mid-month to month-end.
The decline in gilt yields has seen the spread of US Treasury yields over gilts widen with the US Federal Reserve seemingly all but assured to tighten policy in December.
With the ECB set to offer further support to the Eurozone economy in December, Sterling strengthened against the €uro on the divergence in policy. However, the weaker interest rate expectations in the UK, compared to the US, saw £/$ slip below the $1.50 level for the first time since late April.
UK equities on the FTSE 100 have, once more, underperformed those on other frontline bourses during the month. However, the more UK centric FTSE 250, which better reflects the perceived fortunes of the domestic economy, has performed rather better. Escalating inflation, could push the Bank to react rather earlier.

Appendix 3: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

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

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Green	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A, ,Viability BB+	Fund Manager

Term deposits with nationalised banks and banks and building societies

Where applicable limits are per Bank Group and not individual Banks within a Group	**Minimum Credit Criteria**	**Use**	**Max £**	**Max. maturity period**
UK part nationalised banks	Green	In-house	**£15m**	**364 days**
UK part nationalised banks	UK sovereign rating or Short-term F1, Long term A ,Viability BB+	Fund Manager	**Max 15% of fund**	**364 days**

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	Fund Manager
UK Government Gilts	UK sovereign rating	In house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AA-	In house buy and hold and Fund Manager
Bond issuance 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 and Fund Manager
Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Sovereign bond issues (other than the UK govt)	AA-	In house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Corporate Bonds – Secured (i.e. with collateral or other cover)	A	In house buy and hold and Fund Manager
Corporate Bonds - unsecured	AA-	In house buy and hold and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds 3. Instant Access Deposit Accounts	AAA AAA	In-house In-house
4. Enhanced Money Market Funds	AA	In-house
5. Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	AA-	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.

NON-SPECIFIED INVESTMENTS: A maximum of 40% will be held in aggregate in non-specified investment

Maturities of ANY period

Where applicable limits are per Bank Group and not individual Banks within a Group	* Minimum Credit Criteria	Use	Max % of fund	Max. maturity period
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Commercial paper other	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
	*** Minimum Credit Criteria**	**Use**	**Max % of fund**	**Max. maturity period**
Bonds – Secured (i.e. with collateral or other cover)	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
Bonds – Unsecured	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which meet the Specified Investments criteria	Purple	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which fall in the Non- Specified Investments criteria	Green	In- house and Fund Manager	15%	100 days

Term Deposits with Local Authorities	-	In- house and Fund Manager	10%	2 years
Gilts	UK Sovereign rating	In- house and Fund Manager	25%	10 years
Bonds issued by multilateral development banks	Short-term F1, Long-term AA, Viability BB+	In- house and Fund Manager	15%	5 years
Money Market Funds (MMF) operating on Constant Net Asset Value (CNAV) basis if not credit rated – up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB	In- house and Fund Manager	20%	-
Instant Access Deposit Account	Short-term F1, Long-term AA+, Viability BB	In- house	40%	-
Enhanced Money Market Funds - up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB	In- house and Fund Manager	40%	-
Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Investment in Share Capital of a wholly owned and /or subsidiary company of the Council	As Required	In- house	As Required	As Required

Appendix 4: Approved countries for investments

Based on lowest available rating

AAA

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

AA+

- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- Belgium
- France

AA-

- Saudi Arabia

Appendix 5: Treasury management scheme of delegation

6.1 Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

6.2 Executive

- 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 recommendations
- approving the selection of external service providers and agreeing terms of appointment.

6.3 Accounts Audit & Risk Committee

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

6.4 Role of the section 151 officer

The S151 (responsible) officer

- 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.

Appendix 6: Glossary

Asset Class Limits	Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies
Asset Life	The length of the useful life of an asset e.g. a school
Borrowing / Investment Portfolio	A list of loans or investments held by the Council.
Borrowing Requirement	The amount that the Council needs to borrow to finance capital expenditure and manage debt.
Callable deposit	Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time).
Capitalisation direction	Government approval to use capital resources to fund revenue expenditure.
Cash deposits	Funds placed with a financial institution with a fixed maturity date and interest rate.
Certificates of deposits	(CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties.
CIPFA Code of Practice on Treasury Management	A code of practice issued by CIPFA detailing best practice for managing the treasury management function.
Collaterised Deposit	Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities.
Counterparty	Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending.
Credit Arrangements	Methods of financing such as the use of finance leases
Credit Ratings	A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poor's to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office	An agency of the HM Treasury and its responsibilities include debt and cash management for the UK

	Government
Debt Rescheduling	Refinancing loans on different terms and rates to the original loan.
Financial instrument	Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Fitch Ratings	A credit rating agency.
Forward commitment	Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower.
Gilts **Instant Access Deposit A/cs**	Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis. Deposit account at AA+ (minimum) rated bank where funds are immediately available without notice, accumulating interest on a day by day basis. Specifically used for short term cash accumulation
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Lender Option Borrower Option (LOBO)	Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan.
Limits for external debt	A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.
Liquidity	Access to cash that is readily available.
Lowest Common Denominator	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	A profile of the Council's loan portfolio in order of the date in which they expire and require repayment.
Minimum Revenue Provision	The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.

Money Market Funds	Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year).
Moody's	A credit rating agency.
Non Specified Investments	Investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during
Portfolio	A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses.
Prudential Borrowing	Borrowing undertaken by the Council that does not attract government support to help meet financing costs.
Prudential Code for Capital Finance in Local Authorities	The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.
Prudential Indicators	The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this.
Public Works Loan Board (PWLB)	A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to events.
Security	Placing cash in highly rated institutions.
Sovereign debt rating	Assessment of the international rating agencies of the likelihood that a particular country will default on its loans.
Specified Investments	Investments that offer high security and liquidity. They

	must have a maturity of no longer than 364 days.
Standard and Poors	A credit rating agency.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
UK Government Investments	Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away
Yield	The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity.

This page is intentionally left blank

Agenda Item 11

Date	Agenda items
23 March	External Audit Progress Report and Audit Plan
	Internal Audit Progress Report and Audit Plan
	Corporate Fraud and Corruption Strategy and Whistle Blowing Update
	Corporate Risk Register Q3
	Treasury Management Q3

This page is intentionally left blank