**AGENDA ITEM 7**

# HIGH PEAK BOROUGH COUNCIL

**Report to Council**

**25th February 2016**

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|---|---|
| TITLE: | **Recommendations from the Audit & Regulatory Committee – 23rd February 2016** |
| CONTACT OFFICER: | **Mark Trillo, Executive Director (People) & Monitoring Officer** |
| WARDS INVOLVED: | **As detailed in the attached reports** |

To approve the following recommendations of the Audit and Regulatory Committee:

**1. Councillor Pritchard to move the following recommendations:**

**a) TREASURY MANAGEMENT UPDATE: MID-YEAR REPORT 2015/16**

**RECOMMENDED:**

That councillors note the current Treasury Management position (as at 31st December 2015).

**b) TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2016/17**

**RECOMMENDED:**

That Council approves the Annual Treasury Management Strategy Statement (TMSS) 2016/17.

**c) EXTERNAL AUDIT 2015/16 AUDIT PLAN**

**RECOMMENDED:**

That councillors note the report.

**Mark Trillo**
**Executive Director (People) and Monitoring Officer**

**AGENDA ITEM 7 a)**

# HIGH PEAK BOROUGH COUNCIL

**Report to the Audit & Regulatory Committee**

**23rd February 2016**

| | |
|---|---|
| TITLE: | **Treasury Management Update: Mid-Year Report 2015/16** |
| EXECUTIVE COUNCILLOR: | **Cllr Emily Thrane – Executive Councillor for Finance & Corporate Services** |
| CONTACT OFFICERS: | **Claire Hazeldene – Finance & Procurement Manager**<br>**Emily Bennetts – Finance Business Partner** |
| WARDS INVOLVED: | **Non-specific** |

**Appendices Attached:**
**Appendix A - (Treasury Management Mid-Year Update Report – 31st December 2015)**

## 1. Reason for the Report

1.1. The purpose of the report is to allow the robust scrutiny of the Council's treasury management performance in 2015/16 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 and generally accepted good practice.

## 2. Recommendation

2.1. That the Committee notes the current Treasury Management position (as at 31st December 2015).

## 3. Executive Summary

3.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2009 was adopted by the Council in

March 2010. This Council fully complies with its requirements, one of which is to produce at least one mid-year operational report.

3.2. This report comprises the following:

- The latest interest rate forecast;
- Investment income earned to date and projected for 2015/16;
- The current investment portfolio;
- The borrowing portfolio, projected borrowing costs for 2015/16 and debt rescheduling options; and
- Compliance against prudential and treasury indicators set in the Treasury Management Strategy 2015/16.

3.3. The main headlines include:

- The Bank of England base rate remained at 0.5% during the period to 31st December 2015. The first increase remains forecast for the end of December 2016.
- The borrowing costs budget is currently on target and there is a surplus of £32,000 anticipated on the investment income budget.
- The average return on investments achieved by the Council during the period to 31st December 2015 was 0.64%. This compares favorably to short-term industry benchmarks.
- The Council's investment portfolio totalled £28,098,000 spread across fourteen separate institutions as at 31st December 2015.
- The Council's total level of debt as at 31st December 2015 is £82,263,596 (including finance leases) and the average rate of borrowing is 3.73%.

## 4. How this report links to Corporate Priorities

4.1. An effective treasury management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

## 5. Options and Analysis

5.1. This report sets out the treasury management position for High Peak Borough Council for 2015/16 to date and the projected outturn. As such it is a statement of fact and there are no options

## 6. Implications

6.1. Community Safety - (Crime and Disorder Act 1998)
None

6.2. Workforce
None

6.3. Equality and Diversity/ Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

6.4. Financial Considerations
Financial considerations are embedded throughout the report.

6.5. Legal
None

6.6. Sustainability
None

6.7. Internal and External Consultation
None

6.8. Risk Assessment
There are a number of inherent financial risks associated with Treasury Management activity, not least the potential for loss of interest and/ or deposits. For this reason, the Council engages the services of external Treasury Management advisors, Capita Asset Services ('Capita').

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. That Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

**ANDREW P STOKES**
**Executive Director (Transformation) & Chief Finance Officer**

| Background Papers | Location | Contacts |
|---|---|---|
| 'Treasury Management – Governance and Scrutiny Arrangements' (Audit & Regulatory Committee Sep 09) | Joint Finance Team, Town Hall, Buxton | Claire Hazeldene<br>Finance & Procurement Manager<br>Tel. 01538 395400 Ext. 4191 |
| 'Treasury Management Strategy 2015/16 (Audit & Regulatory Committee February 2015) | | Emily Bennetts<br>Finance Business Partner<br>Tel. 01538 395400 Ext. 4186 |

**Appendix A**

# High Peak Borough Council

Working for our community

## Treasury Management Update
## 31st December 2015

## 1. Introduction

1.1. Treasury management is defined as “the management of the 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. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management (2009) which recommends that members should be briefed on treasury management activities at least twice a year.

1.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Regulatory Committee are reported to full Council.

1.4. The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by Council on 25th February 2015. This report details treasury management performance up to the 31st December 2015 and projects forward for the remainder of the financial year.

## 2. Economic Forecast – Interest Rates

2.1. The latest base rate and PWLB (Public Works Loan Board) forecast from the Council’s treasury advisers, Capita Asset Services (‘Capita’), is shown below:

| | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 | 1.50 | 1.75 |
| 5yr PWLB | 2.00 | 2.10 | 2.20 | 2.30 | 2.40 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 |
| 10yr PWLB | 2.60 | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.60 |
| 25yr PWLB | 3.40 | 3.40 | 3.50 | 3.60 | 3.70 | 3.70 | 3.80 | 3.90 | 4.00 | 4.00 | 4.10 | 4.10 |
| 50yr PWLB | 3.20 | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.70 | 3.80 | 3.90 | 3.90 | 4.00 | 4.10 |

2.2. Capita have undertaken a revision of their interest rate forecast as a result of the downbeat UK and world economic new in recent weeks and the extreme volatility seen in financial markets. The expectation for the first increase in Bank Rate has now been pushed back from the end of June to the end of December 2016.

## 3. Investment Income

3.1. Interest earned on investment deposits up to 31st December 2015 totalled £103,500. Average interest rates achieved on the Council’s investments are shown in the table below:

| Comparator | Average Rate Q1 | Average Rate Q2 | Average Rate Q3 |
|---|---|---|---|
| **HPBC Total** | **0.62%** | **0.64%** | **0.64%** |
| HPBC Long-term fixed (>364 days) | 0.98% | 0.98% | 0.98% |
| HPBC Short-term fixed (<364 days) | 0.65% | 0.66% | 0.68% |
| HPBC Short-term instant access | 0.38% | 0.39% | 0.39% |
| **Benchmarks (Capita)** | | | |
| *LIBID 7 Day Rate | 0.36% | 0.36% | 0.36% |
| *LIBID 3 Month Rate | 0.44% | 0.46% | 0.45% |
| *LIBID 6 Month Rate | 0.58% | 0.62% | 0.61% |
| *LIBID 12 Month Rate | 0.87% | 0.93% | 0.92% |
| Average Base Rate | 0.50% | 0.50% | 0.50% |
| Current Base Rate | 0.50% | 0.50% | 0.50% |

**LIBID = London Inter Bank Bid Rate*

3.2. The Council's Treasury investment returns compare favourably to the LIBID rates, the recognised industry benchmark rates.

3.3. The table below highlights the level of investment activity and the rates obtained in the period from 1st September 2015 to 31st December 2015. Investments are made in line with Capita's creditworthiness guidance and the duration limits applied to each colour banding.

| Institution | Amount | Length | Rate |
|---|---|---|---|
| Credit Suisse AG | £2,200,000 | 6 months | 0.74% |
| Santander 180 day notice | £2,000,000 | 180 day notice | 1.15% |
| Svenska Handelsbanken | 1,500,000 | 3 months | 0.54% |
| Nationwide Building Society | 1,300,000 | 6 months | 0.66% |
| Coventry Building Society | 1,000,000 | 4 months | 0.50% |
| DZ Bank AG | 1,000,000 | 6 months | 0.69% |
| Lloyds Bank | 1,000,000 | 6 months | 0.75% |
| Nationwide Building Society | 1,000,000 | 6 months | 0.71% |
| Nationwide Building Society | 1,000,000 | 6 months | 0.71% |
| Nordea AB | 1,000,000 | 6 months | 0.67% |
| Nordea AB | 1,000,000 | 3 months | 0.55% |
| Sumitomo Mitsui Banking Corporation Europe Ltd | £1,000,000 | 6 months | 0.67% |
| Sumitomo Mitsui Banking Corporation Europe Ltd | £1,000,000 | 3 months | 0.58% |
| Instant Access Cash *(Instant Access Accounts & Money Market Funds)* | £2,423,000 *(daily average)* | | 0.39% |

3.4. The rates achieved by the Council vary by institution, by duration of investment and by the timing of when the investment was made. The Council's lending criteria restricts the number of financial institutions that are eligible to be on the lending list, and the amount that can be invested with eligible counterparties (and counterparty groups) at any one time.

3.5. The majority of the investment portfolio is held on a short-term basis (< 1 year). The Council continues to utilise same day access business accounts; and also use certificates of deposits (via the use of custodian - King & Shaxson) which offer competitive rates and access to banks that would not necessarily deal direct with the Authority for the sums invested.

3.6. The Council has budgeted to receive £104,610 in investment income in 2015/16. During the latter half of the year there have been more investment opportunities offering better rates than have been the norm since the economic downturn. In addition, the investment balances are higher than originally assumed at budget setting. Therefore, a surplus of £32,000 is anticipated on the investment income.

*Icelandic Investments*

3.7. In October 2008, the Council held a £1m investment with Heritable Bank, which went into administration during the Icelandic bank collapse. At the end of 2013/14, the Council had received 94% of the original investment in Heritable Bank. At the time, this was understood to be the maximum the Council would receive and there would be no further distributions. However, the Council was notified at the beginning of 2015/16 that an additional dividend in respect of Heritable Bank was anticipated. This was received in August 2015: a distribution of c.3.98pence in the pound, amounting to £43,944.50 in total (made up of £39,826.55 principal and £4,117.95 interest).

3.8. This now brings the total received on the original claim for this investment to 98%. The Council has not received any further updates during quarter 3 regarding the potential for any further dividend payments.

## 4. Investment Portfolio

4.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 31st December 2015 totalled £28,098,000 as shown in the table below:

| Financial Institution | Amount | Maximum recommended lending duration |
|---|---|---|
| Money Market Funds | £4,400,000 | WHITE (12 months) |
| Nationwide Building Society | £3,300,000 | RED (6 months) |
| Santander | £3,300,000 | RED (6 months) |
| NatWest Bank Plc | £3,248,000 | BLUE (12 months) |
| Credit Suisse AG | £2,200,000 | RED (6 months) |
| DZ Bank AG | £2,000,000 | ORANGE (12 months) |
| Sumitomo Mitsui Banking Corporation Europe Ltd | £2,000,000 | RED (6 months) |
| Royal Bank of Scotland | £1,500,000 | BLUE (12 months) |
| Svenska Handlesbanken | £1,500,000 | ORANGE (12 months) |
| Lloyds Bank | £1,150,000 | RED (6 months) |
| Coventry Building Society | £1,000,000 | RED (6 months) |
| Nordea AG | £1,000,000 | ORANGE (12 months) |
| Standard Chartered Bank | £1,000,000 | RED (6 months) |
| Bank of Scotland | £500,000 | RED (6 months) |
| **TOTAL** | **£28,098,000** | |

4.2. The maximum investment term, as recommended by Capita, is shown by colour banding in the table below:

| Colour Banding | Maximum Duration of Investment | UK Banks | International Banks |
|---|---|---|---|
| **PURPLE** | Up to 2 Years | £4.4m | £3.3m |
| **ORANGE** | Up to 1 Year | £4.0m | £2.6m |
| **RED** | Up to 6 Months | £3.3m | £2.2m |
| **GREEN** | Up to 100 Days | £2.9m | £1.8m |
| | | | |
| **BLUE (Part & fully nationalised financial institutions)** | Up to 1 Year | £4.4m | n/a |
| **BLUE (NatWest)** | Up to 1 Year | £6.6m | n/a |
| | | | |
| **Money Market Funds** | Up to 1 Year | £3.3m | n/a |
| **WHITE (Lending to the Government / Local Authorities)** | Up to 1 Year | n/a | n/a |
| | Over 1 Year | £7.0m | n/a |

4.3. Group limits are also applied, restricting the total amount that can be invested on a fixed basis to £4.4 million, increasing to £6.6 million if at least the additional £2.4 million is held on an instant access basis.

4.4. The average level of funds that have been available for investment up to 31st December 2015 was £22.0 million. Investments are generally made up of short-term cash and core cash. Short-term cash is dependent on the timing of major payments e.g. precept payments, salaries and creditor payments, and major receipts e.g. receipt of grants and Council Tax direct debit dates. Core cash is dependent on capital programme commitments.

## 5. Borrowing Position

5.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.

5.2. The Council's total outstanding debt as at 31st December 2015 is £82,263,596, as detailed in the table below:

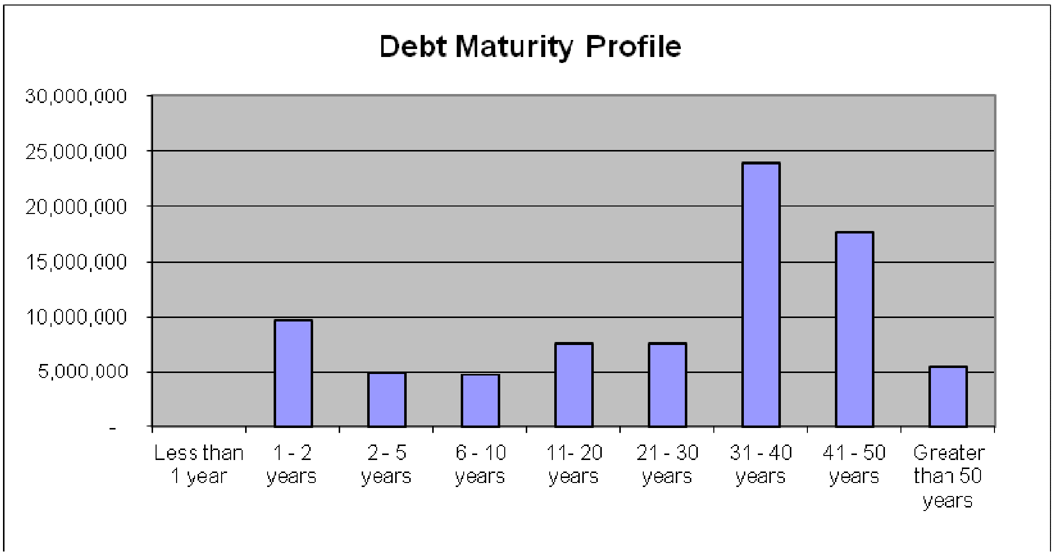
| Lender | External Borrowing | Average Interest Rate | Maturity period |
|---|---|---|---|
| **Public Works Loan Board** | £63,773,504 | 3.66% | between 1 and 47 yrs |
| **Market Loans** | £12,800,000 | 4.57% | between 7 and 52 yrs |
| **Local Authority Loans** | £5,000,000 | 2.99% | up to 4 yrs |
| **Finance Leases** | £690,092 | n/a | Between 3 and 6 years |
| **Total** | **£82,263,596** | **3.73%** | |

5.3. The 'operational boundary' (£86,162,000) and 'authorised limit' (£88,662,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.

5.4. There has been no 'new' borrowing undertaken to date, and no further borrowing is anticipated for the remainder of 2015/16.

5.5. The Council has budgeted to incur £1,586,070 in interest charges and other financing costs in 2015/16. It is now expected that the additional borrowing cost of £21,000 relating to accrued interest associated with a S106 contribution will no longer be incurred. Therefore the borrowing cost budget is expected to be on target.

5.6. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.




5.7. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Capita, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

5.8. No rescheduling has taken place during 2015/16 to date. The Council will work with Capita to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.

## 6. Prudential Indicators

6.1. The prudential & treasury indicators (as set in the Treasury Management Strategy 2015/16) have not been breached during the year.

# HIGH PEAK BOROUGH COUNCIL

**Report to the Audit & Regulatory Committee**

**23rd February 2016**

| | |
|---|---|
| TITLE: | **Treasury Management Strategy Statement (TMSS) 2016/17** |
| EXECUTIVE COUNCILLOR: | **Cllr Emily Thrane – Executive Councillor for Finance & Corporate Services** |
| CONTACT OFFICER: | **Claire Hazeldene – Finance & Procurement Manager**<br>**Emily Bennetts – Finance Business Partner** |
| WARDS: | **Non-Specific** |

**Appendices Attached:**
**Appendix A - Treasury Management Strategy Statement 2016/17**

## 1. Purpose of the Report

1.1 The purpose of the report is to allow members of the Committee to consider and endorse the Council's Treasury Management Strategy for 2016/17, ensuring that its capital and treasury activities for the next four years are affordable and properly managed.

## 2. Recommendation

2.1. That the Annual Treasury Management Strategy Statement (TMSS) 2016/17 is **recommended** to Council for approval.

## 3. Executive Summary

3.1. The Council is required, in accordance with the Local Government Act 2003, to produce an annual Treasury Management Strategy Statement before the commencement of each financial year.

3.2. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The Council is required to set prudential and treasury indicators for the next four years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3. The 2016/17 Treasury Management Strategy Statement comprises three principal areas:

***a. Capital Programme (section 6)***
- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy

***b. Treasury Management (section 7)***
- Current treasury position
- Treasury indicators
- Prospects for interest rates
- The borrowing strategy

***c. The Annual Investment Strategy (section 8)***
- Investment policy
- Creditworthiness policy
- Investment income

3.4. The committee is requested to note the controls that have been put in place to manage the Council's treasury management risks and activities and to endorse the Treasury Management Strategy for 2016/17.

## 4. How this report links to Corporate Priorities

4.1. Effective treasury management is critical to the safeguarding and management of the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin the Council's corporate priorities.

## 5. Options

5.1. This report sets the proposed treasury management approach based upon the Council's financial plans.

## 6. Implications

6.1. Community Safety - (Crime and Disorder Act 1998)
None

6.2. Workforce
None

6.3. Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's equality and diversity policies.

6.4. Financial Considerations
Financial considerations are embedded throughout the report.

6.5. Legal
None

6.6. Sustainability
None

6.7. Internal and External Consultation
None

6.8. Risk Assessment
There are a number of inherent financial risks associated with treasury management activity, not least the potential for loss of interest and/or deposits. The Council has engaged Capita Asset Services as its treasury management advisors.

Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy, which is the subject of this report. The Strategy includes a number of risk management features such as the overriding priority that security of deposit takes precedence over return on investment.

**ANDREW P STOKES**
**Executive Director (Transformation) and Chief Finance Officer**

| **Background Papers** | **Location** | **Contacts** |
| --- | --- | --- |
| 'Treasury Management – Governance and Scrutiny Arrangements' (Audit & Regulatory Committee Sep 09) | Town Hall, Buxton | Claire Hazeldene<br>Finance & Procurement Manager<br>Tel. 01538 395400 #4191<br><br>Emily Bennetts<br>Finance Business Partner<br>Tel. 01538 395400 #4186 |

**APPENDIX A**

# Treasury Management Strategy Statement

Annual Investment Strategy and Minimum Revenue Provision Policy Statement

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# 2016/17

## 1. Introduction

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

1.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3. Treasury Management is defined as "the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

## 2. Reporting Requirements

2.1. The Council is required to receive and approve, as a minimum, three main reports each year. The three main reports are:

a. **A Treasury Strategy**, which looks forward four years and includes:
   - Treasury Management Strategy, explaining how the investments and borrowings are to be organised, including treasury indicators;
   - The Council's capital plans, including prudential indicators;
   - Minimum Revenue Provision (MRP) Policy, stating how residual capital expenditure is charged to revenue over time; and
   - Investment Strategy, stating the parameters on how investments are to be managed.

b. **A Mid Year Treasury Management Report***,* which updates members on treasury activities during the financial year and provides for revisions to the Treasury Strategy and indicators as necessary.

c. **An Annual Treasury Report**, which updates members on the outturn for the previous financial year, summarises the treasury activity for that year and includes a full listing of actual prudential indictors.

2.2. The Treasury Management Strategy Statement contained in this Appendix addresses the first of these requirements.

2.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function prior to reports being formally approved at Council.

2.4. The respective roles & responsibilities of the Council, its Audit & Regulatory Committee and the Section 151 Officer are noted in Annex 2.

## 3. Treasury Management Strategy Statement 2016/17

3.1. The 2016/17 Treasury Management Strategy Statement comprises the following principal elements:

| | |
|---|---|
| ***Capital Programme***<br>*(section 6)* | Capital plans and the prudential indicators<br>Minimum revenue provision (MRP) policy |
| ***Treasury Management***<br>*(section 7)* | Current treasury position<br>Treasury indicators<br>Prospects for interest rates<br>The borrowing strategy |
| ***The Annual Investment Strategy***<br>*(section 8)* | Investment policy<br>Creditworthiness policy<br>Investment income |

3.2. The Treasury Management Strategy Statement meets the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance (CIPFA) Prudential Code, the CIPFA Treasury Management Code and Communities and Local Government (CLG) Investment guidance.

## 4. Training

4.1. The CIPFA Code requires the responsible officer (the Chief Finance Officer) to ensure that members and officers with responsibility for treasury management receive adequate training. Training is particularly important for the members who are responsible for the scrutiny of the Council's treasury management. Training was provided for new members of the Audit Committee in July 2015, further training can be arranged on request and according to need.

## 5. Treasury Management Consultants

5.1. The Council has appointed Capita Asset Services as its external treasury management advisor - providing the Council with access to specialist skills and resources.

5.2. The Council recognises that the 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.

5.3. The Council will ensure that the terms of appointment of treasury advisors and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 6. The Capital Programme & Prudential Indicators

*Capital Expenditure*

6.1. The capital expenditure prudential indicator comprises a summary of the Council's capital programme, which is a key driver of treasury management activity.

6.2. The table below summarises the Council's capital expenditure plans and how these plans are to be funded.

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| ***Capital Expenditure:*** | **5,299,000** | **5,906,000** | **6,774,000** | **7,905,000** | **8,561,000** | **6,607,000** |
| *General Fund* | 2,032,000 | 1,499,000 | 2,088,000 | 2,798,000 | 3,308,000 | 1,442,000 |
| *Housing Revenue Account* | 3,267,000 | 4,407,000 | 4,686,000 | 5,107,000 | 5,253,000 | 5,165,000 |
| ***Financed by:*** | | | | | | |
| Capital Receipts | 713,000 | 30,000 | 1,188,000 | 669,000 | 1,454,000 | 755,000 |
| Capital Grants | 571,000 | 305,000 | 284,000 | 238,000 | 238,000 | 238,000 |
| Capital Reserves | 1,635,000 | 3,200,000 | 1,955,000 | 1,432,000 | 1,432,000 | 1,432,000 |
| HRA Revenue | 1,833,000 | 2,219,000 | 2,247,000 | 3,144,000 | 3,212,000 | 3,218,000 |
| **Net Financing Need for Year** | **547,000** | **152,000** | **1,100,000** | **2,422,000** | **2,225,000** | **964,000** |

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

6.3. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is essentially a measure of the Council's underlying borrowing need.

6.4. The CFR increases each time the Council incurs capital expenditure that it does not immediately pay for (i.e. the CFR increases when its expenditure is financed through borrowing).

6.5. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP). The CFR is reduced each year by the MRP. Each year's borrowing need is divided by the life of the assets for which borrowing was undertaken, resulting in an annual charge to revenue, and reduction in the Council's CFR.

6.6. The CFR includes any other long term liabilities (e.g. 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 had £690,000 of such schemes within the CFR at 1st April 2015.

6.7. The Council's Capital Financing Requirement is shown in the table below:

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|---|
| **Capital Financing Requirement** | £ | £ | £ | £ | £ | £ |
| *CFR – non housing* | *22,422,000* | *21,714,000* | *21,957,000* | *23,537,000* | *24,907,000* | *24,986,000* |
| *CFR – housing* | *59,607,000* | *58,358,000* | *57,108,000* | *55,859,000* | *54,610,000* | *53,360,000* |
| | **82,029,000** | **80,072,000** | **79,065,000** | **79,396,000** | **79,517,000** | **78,346,000** |
| **Movement in CFR** | (1,610,000) | (1,957,000) | (1,007,000) | 331,000 | 121,000 | (1,171,000) |
| ***Represented by:*** | | | | | | |
| Net financing need for the year | 547,000 | 152,000 | 1,100,000 | 2,422,000 | 2,225,000 | 964,000 |
| Less Minimum Revenue Provision | (2,157,000) | (2,109,000) | (2,107,000) | (2,091,000) | (2,104,000) | (2,135,000) |
| **Movement in CFR** | **(1,610,000)** | **(1,957,000)** | **(1,007,000)** | **331,000** | **121,000** | **(1,171,000)** |

*Minimum Revenue Provision (MRP) Policy Statement*

6.8. The Council is required each year to set aside some of its revenues as provision for debt repayment. This essentially allows to Council to "pay off" an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).

6.9. The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers to be prudent. The new regulation does not itself define "prudent provision". However, guidance has been issued specifying methods for MRP calculation which the Secretary of State considers to be prudent thereby effectively determining prudent provision.

6.10. CLG regulations require the full Council to approve an MRP Statement in advance of each year. It is recommended that the Council apply MRP to capital expenditure funded by borrowing under the 'Asset Life Method': which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.

6.11. The Council has chosen to apply Minimum Revenue Provision to borrowing related to the 2011/12 HRA Reform settlement payment over the period of the HRA business plan (30 years).

*Use of the Council's Resources and Investment Position*

6.12. The Council builds up capital and revenue reserves as necessary for future application. The application of these resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (for example, asset sales, revenue surpluses). Reserves are invested, pending application, to earn a return which supplements the revenue budget.

6.13. An estimate of the amount available at year end for investment is shown in the table below:

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| General Fund | 7,056,000 | 6,085,920 | 5,390,020 | 5,230,490 | 5,223,940 | 5,217,390 |
| Housing Revenue Account | 6,273,000 | 7,590,000 | 7,590,000 | 7,015,000 | 6,115,000 | 5,122,000 |
| **Total core funds** | **13,329,000** | **13,675,920** | **12,980,020** | **12,245,490** | **11,338,940** | **10,339,390** |
| Working capital * | 1,528,000 | - | - | - | - | - |
| (Under)/over borrowing | 235,000 | 2,058,000 | (1,629,000) | (2,086,000) | (2,311,000) | (1,248,000) |
| **Expected investments** | **15,092,000** | **15,733,920** | **11,351,020** | **10,159,490** | **9,027,940** | **9,091,390** |

** Shown as '0' for estimation purposes as dependent on the value of creditors/debtors at year end*

*Affordability Prudential Indicators*

6.14. The previous sections outline the Council's capital expenditure plans and funding requirements. This section assesses the affordability of capital investment plans and the impact on the Council's overall finances.

*Ratio of financing costs to net revenue stream*

6.15. This indicator calculates the cost of capital (borrowing costs net of investment income) as a percentage of the Council's net revenue stream (council tax receipts & government funding - General Fund; rental income - HRA).

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|---|
| General Fund | 13% | 16% | 16% | 14% | 16% | 16% |
| HRA* | 15% | 15% | 15% | 14% | 13% | 13% |

** includes the annual voluntary MRP charge*

*Incremental impact of capital investment decisions on Council Tax*

6.16. This indicator calculates the incremental impact of capital investment decisions on Council Tax (Band D equivalent) by comparing the Council's latest capital projections, as expressed in the draft Medium Term Financial Plan, with those at the same period last year.

| | 2014/15 Actual | 2015/16* Estimate | 2016/17* Estimate | 2017/18* Estimate | 2018/19* Estimate | 2019/20* Estimate |
|---|---|---|---|---|---|---|
| Council Tax *(Band D equivalent)* | (£0.30) | (£0.29) | (£0.85) | (£1.31) | £0.36 | £2.23 |

** Based on the difference in the estimated borrowing requirement between the two years and consequent impact on interest payable/loss of interest on investments and MRP charge*

*Incremental impact of capital investment decisions on housing rent levels.*

6.17. This indicator calculates the incremental impact of capital investment decisions within the housing capital programme on weekly rent levels.

| | 2014/15 Actual | 2015/16* Estimate | 2016/17* Estimate | 2017/18* Estimate | 2018/19* Estimate | 2019/20* Estimate |
|---|---|---|---|---|---|---|
| Weekly Housing Rents | (£0.01p) | (£0.02p) | (£0.01p) | £0.00p | £0.45p | £0.57p |

** Based on the difference in capital expenditure estimates between the two years and consequent impact on investment income due to use of balances (no estimated borrowing requirement)*

*HRA debt per dwelling*

6.18. The indicator in the table below shows the level of HRA debt per dwelling:

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|---|
| HRA debt (£) | 59,607,100 | 58,357,730 | 57,108,370 | 55,859,000 | 54,609,630 | 53,360,270 |
| HRA dwellings (no) | 4,040 | 4,020 | 4,000 | 3,980 | 3,960 | 3,940 |
| Debt per dwelling (£) | 14,754 | 14,517 | 14,277 | 14,035 | 13,790 | 13,543 |

*Interest payable & interest receivable*

6.19. Given the capital projections above, borrowing costs and investment income budgets for the next four years are forecast as follows:

| | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|
| Borrowing Costs (General Fund) | £1,547,970 | £1,542,950 | £1,713,880 | £1,786,060 |
| Borrowing Costs (HRA) | £3,416,430 | £3,356,970 | £3,234,340 | £3,238,940 |
| Investment Income | (£130,660) | (£221,360) | (£296,040) | (£378,590) |

## 7. Treasury Management

7.1. The treasury management function ensures that the Council's cash is organised so that sufficient cash is available to service its plans. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury indicators and the current and projected debt and investment positions.

*Current Debt Position*

7.2. The Council's debt position at 31st March 2015 and its debt estimates going forward are summarised below. The table shows the actual external debt against the underlying borrowing need (the Capital Financing Requirement) highlighting any under or over borrowing.

| | March 15 Actual | March 16 Estimate | March 17 Estimate | March 18 Estimate | March 19 Estimate | March 20 Estimate |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| External Borrowing | 81,574,000 | 81,574,000 | 77,025,000 | 77,025,000 | 77,025,000 | 77,025,000 |
| Other long-term liabilities *(Finance Leases)* | 690,000 | 556,000 | 411,000 | 286,000 | 181,000 | 73,000 |
| **Gross Debt at 31st March** | **82,264,000** | **82,130,000** | **77,436,000** | **77,311,000** | **77,206,000** | **77,098,000** |
| *Change in Debt position* | (2,164,000) | (134,000) | (4,694,000) | (125,000) | (105,000) | (108,000) |
| **Capital Financing Requirement** | **82,029,000** | **80,072,000** | **79,066,000** | **79,396,000** | **79,517,000** | **78,346,000** |
| *(Under) / over borrowing* | 235,000 | 2,058,000 | (1,630,000) | (2,085,000) | (2,311,000) | (1,248,000) |

7.3. The Council is required to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for borrowing in advance of need for future years, but ensures that borrowing is not undertaken for revenue purposes.

7.4. The Council has a projected over-borrowed position at the end of 2015/16 as a result of borrowing in advance undertaken and lower than anticipated borrowing requirements in 2014/15 and 2015/16. However there are a number of loan maturities in 2016/17 of which it is forecast that at least £4.5million will not be refinanced. Therefore, the Authority will be in an under-borrowed position from 2016/17 onwards. This view takes into account current and future proposals with regard to the capital programme.

*Treasury Indicators - Limits to Borrowing Activity*

7.5. The Council sets limits to ensure that the revenue consequences of the capital programme on external borrowing remain affordable.

*Operational Boundary*

7.6. This is the limit beyond which external debt is not expected to exceed. This represents the Capital Financing Requirement plus an additional allowance to cover short-term liquidity requirements.

| Operational boundary | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Capital Financing Requirement | 80,072,000 | 79,066,000 | 79,396,000 | 79,517,000 | 78,346,000 |
| Allowance for borrowing to cover short-term cash flow* | 4,238,000 | 4,365,000 | 4,496,000 | 4,631,000 | 4,770,000 |
| **Total Gross Debt** | **84,310,000** | **83,431,000** | **83,892,000** | **84,148,000** | **83,116,000** |

** Amount required in short-term to cover precepts (the highest cash outflow)*

*Authorised Limit for External Debt*

7.7. This indicator is the statutory limit set by the Council under Section 3 (1) of the Local Government Act 2003 beyond which external debt is prohibited.

| Authorised limit | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Operational Boundary | 84,310,000 | 83,431,000 | 83,892,000 | 84,148,000 | 83,116,000 |
| 'Headroom' | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| **Total Gross Debt** | **86,810,000** | **85,931,000** | **86,392,000** | **86,648,000** | **85,616,000** |

*HRA Debt Limits*

7.8. The Council is subject to HRA Debt Limits under the HRA self-financing regime:

| HRA Debt Limit | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| HRA Debt Cap | 68,233,000 | 68,233,000 | 68,233,000 | 68,233,000 | 68,233,000 |
| HRA CFR | 58,358,000 | 57,108,000 | 55,859,000 | 54,610,000 | 53,360,000 |
| HRA Headroom* | 9,875,000 | 11,125,000 | 12,374,000 | 13,623,000 | 14,873,000 |

***subject to a review of the HRA Business Plan***

*Prospects for Interest Rates*

7.9. The table in Annex 4, provided by Capita, draws together a number of current City forecasts for short term (Bank Rate) and borrowing rates. The table below summarises Capita's view on average interest rates:

| | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | |
|---|---|---|---|---|
| | | **5 year** | **25 year** | **50 year** |
| Mar 2016 | 0.50 | 2.00 | 3.40 | 3.20 |
| Jun 2016 | 0.50 | 2.10 | 3.40 | 3.20 |
| Sep 2016 | 0.50 | 2.20 | 3.50 | 3.30 |
| Dec 2016 | 0.75 | 2.30 | 3.60 | 3.40 |
| Mar 2017 | 0.75 | 2.40 | 3.70 | 3.50 |
| Jun 2017 | 1.00 | 2.50 | 3.70 | 3.60 |
| Sep 2017 | 1.00 | 2.60 | 3.80 | 3.70 |
| Dec 2017 | 1.25 | 2.70 | 3.90 | 3.80 |
| Mar 2018 | 1.25 | 2.80 | 4.00 | 3.90 |
| Jun 2018 | 1.50 | 2.90 | 4.00 | 3.90 |
| Sep 2018 | 1.75 | 3.00 | 4.10 | 4.00 |
| Dec 2018 | 1.75 | 3.10 | 4.10 | 4.00 |
| Mar 2019 | 1.75 | 3.20 | 4.10 | 4.00 |

7.10. The forecast for the first increase in Bank Rate has been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. The timing of a referendum on EU membership could further impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

7.11. Economic forecasting remains difficult with so many external influences weighing on the UK. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. The overall balance of risks to economic recovery in the UK, and consequently the Bank Rate forecast, is currently to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Current market expectations have the first Bank Rate increase delayed beyond Capita's current forecast at Quarter 1 2017.

7.12. Those downside risks include: emerging country economies, currencies and corporates destabilised by falling commodity prices and/ or Fed. rate increases, causing a flight to safe havens; geopolitical risks in Eastern Europe, the Middle East and Asia; UK economic growth and increases in inflation weaker than currently anticipated; weak growth/ recession in the UK's main trading partners (EU and US) and a resurgence in the Eurozone sovereign debt crisis.

*Borrowing Strategy*

7.13. The Council's capital financing requirement is currently fully funded by external borrowing.

7.14. As highlighted above, the Council has an estimated total Net Financing Requirement of £6,710,420 for the four years ending March 2020, which is fully offset by Minimum Revenue Provision of £8,436,600. It is anticipated therefore that no 'new' external borrowing will be requried to be required during the period.

| | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Net financing need | 1,100,000 | 2,422,000 | 2,225,000 | 964,000 | 6,711,000 |
| Minimum Revenue Provision | (2,107,000) | (2,091,000) | (2,104,000) | (2,135,000) | (8,437,000) |
| | **(1,007,000)** | **331,000** | **121,000** | **(1,171,000)** | **(1,726,000)** |

7.15. However, £9.7 million of existing external borrowing matures during in 2016/17: the Strategy has assumed at this stage that at least £4.5 million of this will not be refinanced and funded from internal borrowing. The capital financing requirement will be closely monitored in order to make a decision on refinancing prior to maturity. Interest rate forecasts will also be monitored to identify any opportunities to refinance maturing debt in advance to reduce interest charges in the long-term.

*Policy on Borrowing in Advance of Need*

7.16. The Council will not borrow in advance of need, purely to profit from the investment of the extra sums borrowed.

7.17. The Council however may consider borrowing in advance to protect it from higher borrowing costs within approved Capital Financing Requirement estimates to finance new capital expenditure or refinance existing loans. This will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year reporting mechanism.

*Debt Rescheduling*

7.18. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, supported by the Council's treasury advisors, will monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

*Treasury Management Limits on Activity*

7.19. The activity of the treasury function is constrained within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

7.20. The treasury management limits on activity are:

- Upper limits on fixed interest rate exposure - this identifies a maximum limit for fixed interest rates based upon the debt and investment position
- Upper limits on variable interest rate exposure - this identifies a maximum limit for variable interest rates based upon the debt and investment position
- Limits on the maturity structure of borrowing - these limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| ***Limits on fixed interest rates:*** | | | | |
| • *Debt only* | 83,757,000 | 81,358,000 | 81,651,000 | 80,658,000 |
| • *Investments only* | 26,000,000 | 22,000,000 | 20,000,000 | 19,000,000 |

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| ***Limits on variable interest rates*** | | | | |
| • *Debt only* | 23,667,000 | 23,150,000 | 23,307,000 | 23,146,000 |
| • *Investments only* | 25,300,000 | 25,300,000 | 25,300,000 | 25,300,000 |

| **Maturity Structure of borrowing 2016/17** | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 30% |
| 12 months to 2 years | 0% | 30% |
| 2 years to 5 years | 0% | 40% |
| 5 years to 10 years | 0% | 60% |
| 10 years and above | 0% | 90% |

## 8. Annual Investment Strategy

*Investment Policy*

8.1. The Council will, in respect of its Investment Strategy, have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

8.2. The Council's principal investment priorities are the security of capital and the liquidity of its investments. In addition to this, the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.3. To minimise the risk to its investments, the Council has set minimum acceptable credit quality standards of counterparties for inclusion on its lending list. The creditworthiness methodology used to create the counterparty list takes into account the credit ratings and watches published by all three major ratings agencies, as well as real time market data. The Council will seek to generate a list of high creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

8.4. The investment instruments identified for use in the financial year are listed in Annex 3 under the headings, 'Specified' and 'Non-Specified' Investments.

8.5. Counterparty limits will be set as part of the Treasury Strategy and maintained as part of the Council's treasury management practices.

8.6. The Council will report on its investment activity in its Annual Treasury Report at the end of the financial year.

*Creditworthiness Policy*

8.7. This Council employs the creditworthiness service provided by Capita Asset Services. Following a reassessment of methodologies by each of the three rating agencies during 2015 including the removal of implied levels of sovereign support, Capita updated the rating element of their own assessment process. The rating element now focuses soley on the Short and Long Term ratings of an institution. Other elements of Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed. The changes do not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

8.8. As with previous practice, ratings will not be the sole determinant of the quality of an institution and it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which insitutions 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.

8.9. Capita's service models creditworthiness based on:

- Credit ratings from the major rating agencies - Fitch, Moody's and Standard & Poor's;
- Credit watches and credit outlooks from credit rating agencies;

- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

8.10. Credit watches and outlooks are issued by the ratings agencies. 'Credit watches' are considered short-term actions, whereas 'outlooks' are considered over a longer term time horizon. Capita includes the release of a negative or positive watch/outlook in its creditworthiness analysis.

8.11. A 'Credit Default Swap' is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The contract essentially gives protection or 'insurance'. Therefore, CDS spreads provide perceived market sentiment regarding the credit quality of an institution and are also used in the creditworthiness analysis to determine the durational band of investment with a financial institution.

8.12. Capita's creditworthiness model combines credit ratings, credit watches and outlooks in a weighted scoring system, with an overlay of CDS spreads, to produce a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are then used to determine the duration for investments.

8.13. Only counterparties that fall within a 'durational band' will be included on the Council's lending list. In conjunction with the recommended durational limits, the Council has assigned corresponding investment limits to each banding. The limits have been set separately for UK banks and International banks.

*UK Banks*

| Category | Principal Limit | Maximum Length | Portfolio (% of highest balance**) |
|---|---|---|---|
| **Yellow*** | £5.5m | Up to 5 years | 20% |
| **Purple** | £5.5m | Up to 2 years | 20% |
| **Gold** | £4.9m | Up to 1 year | 18% |
| **Red** | £4.0m | Up to 6 months | 15% |
| **Green** | £3.5m | Up to 100 days | 13% |
| **No Colour** | - | Not to be used | - |

** UK Government debt instruments*
***assumes highest balance in 2016/17 is £27,500,000*

*International Banks*

| Category | Principal Limit | Maximum Length | Portfolio (% of highest balance*) |
|---|---|---|---|
| **Purple** | £4.0m | Up to 2 years | 15% |
| **Gold** | £3.3m | Up to 1 year | 12% |
| **Red** | £2.7m | Up to 6 months | 10% |
| **Green** | £2.2m | Up to100 days | 8% |
| **No Colour** | - | Not to be used | - |

** assumes highest balance in 2016/17 is £27,500,000*

8.14. The Council's lending list includes part and fully Nationalised UK banks, which have been assigned the 'blue' category as per Capita's creditworthiness matrix. This category has been allocated a longer durational period and higher investment limit since it has strong Government support. The table below assigns investment limits:

| Category | Principal Limit | Maximum Length | Portfolio (% of highest balance*) |
|---|---|---|---|
| **Blue** | £5.5m | Up to 1 year | 20% |
| **NatWest (the Council's main bank account)** | £8.2m | Up to 1 year | 30% |

** assumes highest balance in 2016/17 is £27,500,000*

8.15. The Council is alerted to changes in ratings and market movements through its use of the Capita creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, it will no longer be used for new investments. All ratings will be monitored prior to any new investments being placed.

*Group Limits*

8.16. To reduce its risk further the Council has set a group limit of 20% (£5,500,000) for fixed term deposits in institutions with the same parent. The group limit will increase to 30% (£8,200,000) where at least the additional 10% (£2,700,000) is held in an instant access account.

*Money Market Funds*

8.17. The Council has access to two Money Market Funds (MMF) - both of which are 'AAA' rated. A 'Money Market Fund' is a pooled vehicle investing in a number of investment instruments with varying maturity periods in a number of different countries. Money Market Funds provide an alternative option for the Council when placing short-term funds and provide for diversification of the investment portfolio.

8.18. The Council has set investment limits in Money Market Funds as follows:

| | Principal Limit | Maximum Length | Portfolio (% of highest balance*) |
|---|---|---|---|
| **Individual MMF** | £4.1m | Up to 1 year | 15% |
| **Total MMF investments**** | £5.5m | Up to 1 year | 20% |

** assumes highest balance in 2016/17 is £27,500,000*
*** maximum held in MMF's at any one time*

*Sovereignty Ratings*

8.19. A sovereign credit rating is the credit rating of a sovereign entity i.e. a country. The highest sovereign rating awarded is 'AAA'. The evolving regulatory environment, in tandem with the rating agencies' new methodologies, means that sovereign ratings are now of lesser importance in the assessment process and the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

8.20. While the Council understands the changes that have taken place, it will continue to use sovereign ratings of individual counties in addition to credit ratings when making investment decisions. When investing with institutions outside the UK, only banks and building societies located in countries with a minimum sovereign rating of 'AAA' will be used. This is in relation to the fact that the underlying domestic and, where appropriate, international economic and wider political and social background will still have an influence on the ratings of a financial institution. There are currently 10 'AAA' rated countries approved for investments, as follows:

| | | | | |
|---|---|---|---|---|
| **Australia** | **Canada** | **Denmark** | **Germany** | **Luxembourg** |
| **Netherlands** | **Norway** | **Singapore** | **Sweden** | **Switzerland** |

*Investment income*

8.21. The Council's in-house managed funds are derived from a core balance available for capital and revenue funding and day-to-day cash flows. At 31st March 2015 the core balances available for investment were £13,329,000. Core balances are available for investment in line with the profile of capital expenditure and requirements of the revenue budget. Investments are therefore made with reference to the core balance and cash flow requirements and the outlook for interest rates.

*Investment Return Expectations*

8.22. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- March 2017 0.75%
- March 2018 1.25%
- March 2019 1.75%

8.23. For 2016/17 the Council has budgeted for an average investment return of 0.61%. The average rates assumed on new investments is as follows:

- Fixed Term Investments (3 month to 1 year), 0.69%
- Instant Access Business Accounts and short-term fixed deposits 0.43%.

8.24. The 2016/17 income budget is therefore forecast to be £130,660.

*Long-term Investments (greater than 1 year)*

8.25. When placing long-term investments with counterparties, the Council's liquidity requirements, availability of funds and counterparty eligibility need to be taken into consideration. The table below sets the limit on the total principal funds that may be invested for greater than 364 days.

| **Maximum principal sums invested > 364 days** | | | | |
|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Principal sums invested > 364 days | £6,000,000 | £4,000,000 | £4,000,000 | £4,000,000 |

**ANNEX 1**

**Treasury Management Policy Statement**

In accordance with the CIPFA Code of Practice on Treasury Management, High Peak Borough Council defines the policies and objectives of its treasury management activities as follows:

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

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

**ANNEX 2**

## Treasury Management Scheme of Delegation

### (i) Full Council

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

### (ii) Audit & Regulatory Committee

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- 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.

## The treasury management role of the section 151 (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.

**ANNEX 3**

## Specified and Non-Specified Investments

### *Specified Investments*

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

| Investment Instrument* | Minimum 'High' Credit Criteria | Investment Limit** |
|---|---|---|
| Debt Management Agency Deposit Facility (DMADF) | n/a | n/a |
| Term deposits – local authorities | n/a | n/a |
| Bridging Loans (Community Groups within HPBC) | Decision made on individual basis & subject to presentation of required documents | £100,000 (total outstanding for all loans at any one time) |
| UK Government Gilts and Treasury Bills | UK Sovereign Rating | n/a |
| Certificates of deposits or corporate bonds with banks and building societies | Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK) | As per individual / group lending limits |
| Term deposits – banks and building societies | Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating –AAA (exc UK) | As per individual / group lending limits |
| UK (Part-)Nationalised Banks | Based on Capita Creditworthiness analysis. Lowest Band – BLUE | As per individual / group lending limits |
| UK Instant Access Accounts | Based on Capita Creditworthiness analysis. Lowest Band – GREEN | As per individual / group lending limits |
| Money Market Funds (MMF) | AAA rated | As per individual / group lending limits |

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate*

*** must conform to both institution and group limits set*

***Non-specified Investments***

Non-specified investment instruments are assumed to take on greater risk and should therefore be subject to greater scrutiny. They include investments that are for a period of more than one year and instruments that the Council has very limited experience and expertise in dealing with.

A maximum of £11,000,000 (40% of the projected highest balance) will be held in aggregate in non-specified investments.

| Non-specified Investments | Minimum Credit Criteria | Investment Limit / Max. % of total investments | Max. maturity period |
|---|---|---|---|
| Term deposits – UK government (maturities in excess of 1 year) | n/a | £6,000,000 (> 364 day limit) | 5 years |
| Term deposits – other LAs / Parish Councils (maturities in excess of a year) | n/a | £6,000,000 (> 364 day limit) | To be determined on an individual case basis, inclusive of options for the Council to review terms at specified periods of time (no greater than 5 years) |
| Term & Callable deposits – banks and building societies (maturities in excess of 1 year) | Based on Capita Creditworthiness analysis. Lowest Band – PURPLE Sovereignty Rating -AAA | £6,000,000 (> 364 day limit) | 2 years |
| Collateralised Deposit | Based on Capita Creditworthiness analysis. Band – YELLOW Sovereignty Rating -AAA | £5,500,000 (as per Yellow limit) | 5 years |
| Commercial Paper | Based on Capita Creditworthiness analysis. Lowest Band – GREEN Sovereignty Rating -AAA | £2,700,000 (10% of highest balance) | 1 year |
| UK Government Gilts – all maturities | Long term AAA | £2,700,000 (10% of highest balance) | 2 years |
| Bonds issued by multilateral development banks - all maturities | Long term AAA | £2,700,000 (10% of highest balance) | 2 years |
| Bonds issued by a financial institution which is guaranteed by the UK government – all maturities | Long term AAA | £2,700,000 (10% of highest balance) | 2 years |
| Sovereign bond issues (i.e. other than the UK govt) – all maturities | Long Term AAA | £2,700,000 (10% of highest balance) | 2 years |
| Treasury Bills – all maturities | n/a | £4,000,000 (15% of highest balance) | 1 year |

| ***Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):*** | | | |
|---|---|---|---|
| **Non-specified Investments** | **Minimum Credit Criteria** | **Investment Limit/ Max. % of total investments** | **Max. maturity period** |
| 1. Government Liquidity Funds – all maturities | AAA rated | £4,000,000 (15% of highest balance) | 2 years |
| 2. Money Market Funds – all maturities | AAA rated | £5,500,000 (20% of highest balance) | 2 years |
| 3. Enhanced cash funds – all maturities | AAA rated | £2,700,000 (10% of highest balance) | 2 years |
| 4. Gilt Funds – all maturities | AAA rated | £2,700,000 (10% of highest balance) | 2 years |

**ANNEX 4**

## UK Interest Rate Forecast (Capita)

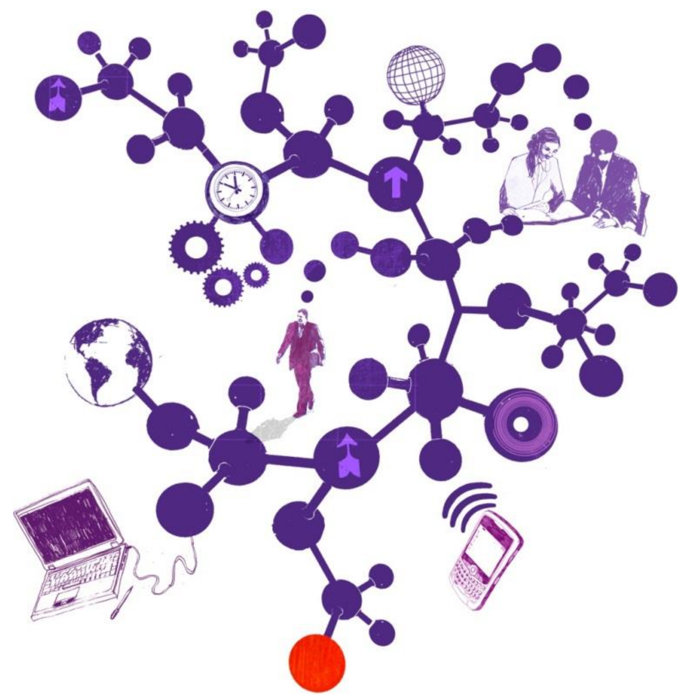
| Capita Asset Services Interest Rate View | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
| Bank Rate View | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| 3 Month LIBID | 0.50% | 0.50% | 0.60% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.40% | 1.50% | 1.60% | 1.80% | 1.90% |
| 6 Month LIBID | 0.70% | 0.70% | 0.80% | 0.90% | 1.00% | 1.20% | 1.30% | 1.50% | 1.60% | 1.70% | 1.80% | 2.00% | 2.20% |
| 12 Month LIBID | 1.00% | 1.00% | 1.10% | 1.20% | 1.30% | 1.50% | 1.60% | 1.80% | 1.90% | 2.00% | 2.10% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% |
| 10yr PWLB Rate | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% |
| 25yr PWLB Rate | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | 4.10% |
| 50yr PWLB Rate | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% | 4.00% |
| **Bank Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| Capital Economics | 0.50% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% |
| Capital Economics | 2.60% | 2.70% | 2.80% | 3.00% | 3.10% | 3.20% | 3.30% | 3.50% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% |
| Capital Economics | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | 4.10% |
| Capital Economics | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% | 4.00% |
| Capital Economics | 3.40% | 3.50% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | - | - | - | - | - |

Grant Thornton

# The Audit Plan for High Peak Borough Council

**Year ending 31 March 2016**

12 February 2016



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12 February 2016

Dear Members of the Audit and Regulatory Committee

**Audit Plan for High Peak Borough Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of High Peak Borough Council, the Audit and Regulatory Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Phil Jones

Engagement Lead

# Contents

**Section**

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- The Council estimated a reduction in central government funding from £1.2 million down to nil over the next three years, only partly offset by income growth associated with business rates, council tax and new homes bonus.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The Council has established a strategic alliance with Staffordshire Moorlands District Council and is in discussion with neighbouring authorities in Derbyshire and Nottinghamshire to capitalise on the greater freedoms over transport and economy now on offer through devolution.

### 3. Housing

- Recent Government announcements in regard to an annual 1% rent reduction for the next four years have a significant impact on the Council's Housing Business Plan – reducing income receipts by £2.4 million over the next four years.
- Therefore, planned levels of expenditure are not sustainable and a full review of the plan is currently underway.

### 4. The Medium-Term Financial Plan

- The Council's Medium-Term Financial Plan includes savings of £2.1 million by the end of the 2018/19 financial year (including £753,880 in the current financial year).
- In 2015/16 the biggest savings are expected to start to emerge from the implementation of the Improving Efficiency and the Service Review exercise but the Council will draw upon its earmarked reserve to off set some of the one of costs arising from the efficiency programme.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

## Our response

1.
- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

2.
- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

3.
- We will consider how the Council has reflected government announcements as part of its business planning process.

4.
- We will consider how the Council has planned the use of its resources as part of our work to reach our VFM conclusion.

5.
- We will work with you to draw forward audit work and to identify aspects of your accounts production where you can learn from the experiences or good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as a 'dry run'

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# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

**1. Fair value accounting**

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

**2. Corporate governance**

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

**3. Highways Network Assets**

- It is expected that the 2016/17 CIPFA Code will provide the means for non Highways Authorities to determine that they do not have assets that would meet the definition of the Highways Network Asset which would otherwise require work to identify and value the assets in readiness for 2016/17.

## Our response

**1. Fair value accounting**

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

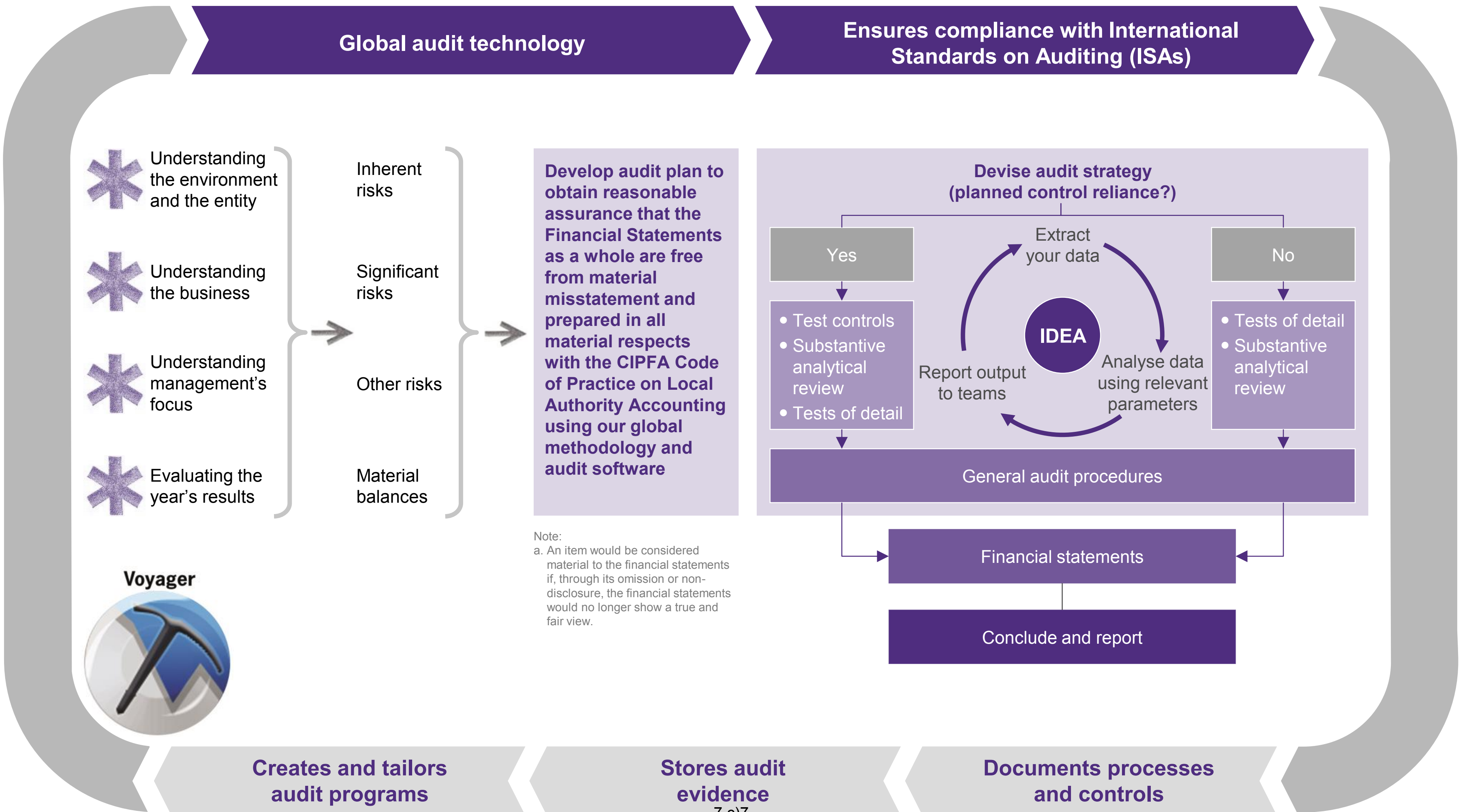
**2. Corporate governance**

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

**3. Highways Network Assets**

- We will discuss your critical judgement at an early stage to agree the scope and confirm that the Code requirements in respect of the Highways Network Asset will not apply.

# Our audit approach

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £0.979 million (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £48,950.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any items where lower levels of materiality are appropriate. However, we consider the following areas to be sensitive items and will undertake more detailed audit procedures:

- Disclosures of senior manager salaries and allowances in the remuneration report

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|---|---|---|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at High Peak Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including High Peak Borough Council, mean that all forms of fraud are seen as unacceptable. |
| Management over-ride of controls | Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities. | **Work planned:**<br>• Review of accounting estimates, judgments and decisions made by management<br>• Testing of journal entries<br>• Review of unusual significant transactions |

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# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit approach |
|---|---|---|
| Operating expenses | Creditors understated or not recorded in the correct period (Operating expenses understated) | We will document the processes and controls in place around the accounting for operating expenses and carry out walkthrough tests to confirm the operation of controls.<br>We will carry out testing including:<br>• the completeness of the subsidiary system interfaces and control account reconciliations<br>• obtaining an understanding of the accruals process and testing a sample of accruals including those for goods received but not invoiced at the year end<br>• Payments after the year end to consider completeness of operating expenses<br>Testing will also cover a sample of operating expenses covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for and in the correct period. |
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | We will document the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls.<br>We will carry out testing including:<br>• the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements<br>• a review of monthly trend analysis of total payroll<br>• substantive testing of senior officer remuneration.<br>Testing will also cover a sample of employee remuneration payments covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for and in the correct period. |



# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Property, plant and equipment
- Investment properties
- Investments (long term and short term)
- Debtors (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Other operating expenditure
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Grant income
- Pension liability and associated CIES transactions and disclosure notes
- Note setting out the 'amounts reported for resource allocation decisions'
- Officers' remuneration note
- Interests in companies and other entities note
- Leases note
- Related party transactions note
- Capital expenditure and financing note
- Financial instruments note
- Housing Revenue Account and associated noted
- Collection Fund Account and associated notes
- Cash Flow Statement and associated notes

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.
- The Council is below the audit threshold and so there is no requirement for us to review the WGA information prepared by the Council.

# Value for Money

**Background**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

| Sub-criteria | Detail |
|---|---|
| Informed decision making | • Acting in the public interest, through demonstrating and applying the principles and values of good governance<br>• Understanding and using appropriate cost and performance information to support informed decision making and performance management<br>• Reliable and timely financial reporting that supports the delivery of strategic priorities<br>• Managing risks effectively and maintaining a sound system of internal control |
| Sustainable resource deployment | • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions<br>• Managing assets effectively to support the delivery of strategic priorities<br>• Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| Working with partners and other third parties | • Working with third parties effectively to deliver strategic priorities<br>• Commissioning services effectively to support the delivery of strategic priorities<br>• Procuring supplies and services effectively to support the delivery of strategic priorities. |

# Value for Money (continued)

## Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

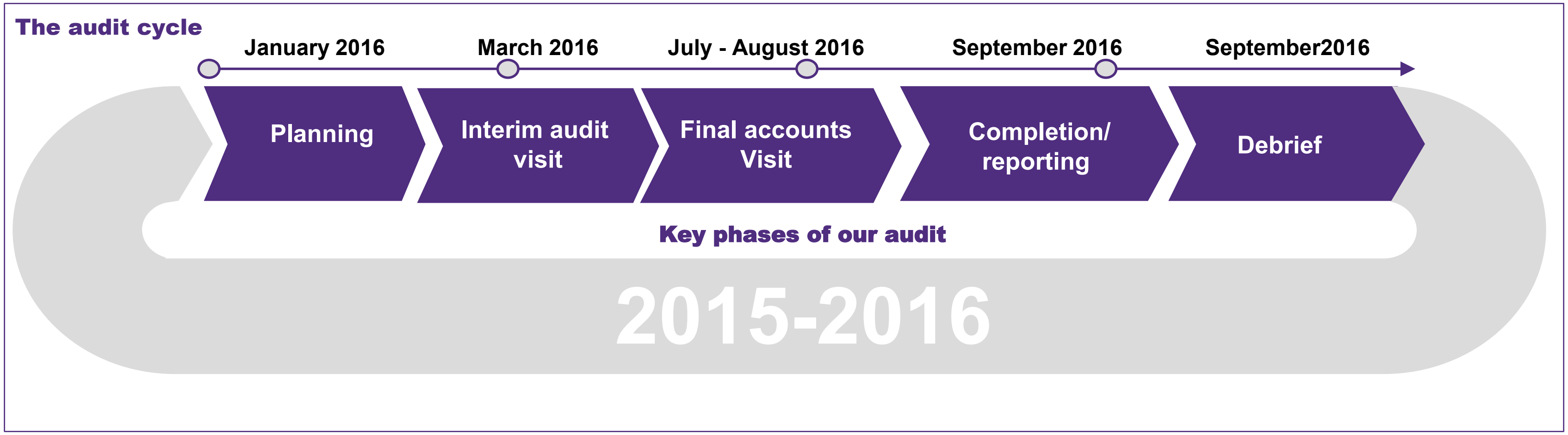
Following the completion of this risk assessment, we will set out our planned work  for 2015/16 to meet our duties in respect of the VfM conclusion, as part of our progress updates to the Audit and Regulatory Committee. This update will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Key dates




| Date | Activity |
|---|---|
| **January 2016** | Planning |
| **March 2016** | Interim site visit |
| **February 2016** | Presentation of audit plan to Audit and Regulatory Committee |
| **July – August 2016** | Year end fieldwork |
| **September 2016** | Audit findings clearance meeting with Finance and Performance Manager |
| **September 2016** | Report audit findings to those charged with governance (Audit and Regulatory Committee) |
| **By 30 September** | Sign financial statements opinion |



# Fees and independence

## Fees

| | £ |
|---|---|
| Council audit | 47,273 |
| Grant certification | 9,199 |
| **Total audit fees (excluding VAT)** | **56,472** |

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

| Service | Fees £ |
|---|---|
| **None audit services:** | |
| • Waste collection and street scene - strategic options | 4,500 |
| • Waste collection and street scene – options appraisal (next steps) | 4,000 |
| • Leisure services - options | 7,844 |
| Total | 16,344 |

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.<br>Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |
| Matters in relation to the Group audit, including:<br>Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud. | ✓ | ✓ |

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