

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 8 February 2013 at 1.30pm

ITEM		PAGE
1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on 14 December 2012 (Copy attached.)	1
4.	Treasury Management Policy and Strategy 2013/2014, including Prudential 'Treasury Management' Indicators for 2013/2014 to 2015/2016 Report of the Executive Director of Commercial and Corporate Services (copy attached).	7
5.	External Auditor - Audit Progress Report at 29 January 2013 Report of the Executive Director of Commercial and Corporate Services (copy attached).	45

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31 January 2013

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At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 14 December 2012

Present:

Mr G N Cook

Councillors Farthing, T Wright and Mr J P Paterson

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager) Gavin Barker (Mazars) and Gillian Warnes (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absences

Apologies for absence were received from Councillors Forbes, Speding and N Wright.

Minutes

23. RESOLVED that the minutes of the meeting of the Committee held on 28 September 2012 be confirmed and signed by the Chair as a correct record.

It was reported that the terms of reference of the Committee had been updated as agreed at the last meeting and a training session had been held for new Members.

Corporate Assurance Map – Update

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map to the Committee.

Members were directed to the Map and it was highlighted that where the Management Assurance column showed no opinion, this work had been carried out by the Risk and Assurance section and was reflected in that column instead.

With regard to the management self assessments mapped against the corporate risk areas, asset management was showing as red. The Head of Corporate Assurance and Procurement advised that this only related to the very specific area of inventories within the Council and did not affect the overall assurance position.

There were now opinions from Legal Services on three areas with Information Governance being moderate assurance. This was not an unexpected view as it was very difficult to achieve full assurance in this area. Financial Resources had now provided an opinion on three of its four planned areas of activity and was still to finalise the work on the fourth. Assurances had also been recently added to the Map from the Transformation, Programmes and Projects office and there would be further additions from the Strategy, Policy and Performance section during the next quarter.

Human Resource Management was also considered moderate assurance but this was also not unexpected. There had not been a great deal of compliance work done for Human Resources in the past and it was not felt that the amber status was a cause for concern.

Risk and Assurance had provided views for all the required areas and some additional risk areas. The views were based on ongoing work in each area and full assurance was not given if the work was not complete. From the next quarter, it was intended to try and reflect this in a fairer manner so that if actions were where they needed to be, the assurance was more likely to be reflected as substantial.

The Chair noted that some risk areas were showing a good assurance position in some columns but overall, the area was marked as amber. He asked when it could be expected that the whole risk area would become green. The Head of Corporate Assurance and Procurement stated that it was not a case of averaging the assurances across the columns as not all boxes reflected the same level of work. The cumulative position was based on a judgement of the areas which had been assessed and there was a large amount of detail sitting behind each opinion.

The assurance position from Strategic Risk Areas was the same as reported in the previous quarter and within the Corporate Risk areas, Business Continuity Planning and Housing Benefits had gone from a position of moderate to substantial assurance.

Councillor Farthing asked where health and safety fitted in to the Map, as this could be a considerable financial risk for the authority and she was advised that the welfare and safety of staff sat within the Human Resource Management corporate risk area.

The Committee had previously heard that the Council was seeking a Partner organisation to support them with the Integrated Assurance Framework and governance arrangements. PricewaterhouseCoopers had now been appointed in this capacity.

All of the Key Performance Indicators (KPIs) for Internal Audit were on target with the exception of the percentage of the medium risk recommendations which had been implemented which stood at 87% against a target of 90%. The Office of the Chief Executive had an implementation rate of 78% and the Head of Corporate Assurance and Procurement advised that this was due to recommendations from audits of training and development and ICT which had not yet been implemented. Work was ongoing with the relevant services and there was confidence that this figure would improve for the next meeting. There had been significant progress in the implementation of recommendations for the adoption service and personal budgets following the concerns expressed at the last Committee meeting.

Members' attention was drawn to the updated Risk Management Policy and Strategy and they were asked to consider the revised document prior to it being presented to Cabinet for approval.

In conclusion, the Head of Corporate Assurance and Procurement stated that the Corporate Assurance Map continued to develop and showed a positive position, that he was satisfied that the KPIs were where they would want them to be and that there were no particular areas of concern to bring to the Committee's attention.

Having considered the report in detail, the Committee: -

24. RESOLVED that: - (i) the updated Corporate Assurance Map be noted; and
- (ii) the revised Risk Management Policy and Strategy be agreed and referred to the Cabinet for approval.

Treasury Management - Third Quarterly Review 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report detailing the Treasury Management performance for the third quarter of 2012/2013.

The Assistant Head of Financial Resources highlighted the positive progress in implementing the Treasury Management Strategy and that the Treasury Management function continued to look at ways of maximising financial savings and increasing investment return. Although no debt rescheduling had been possible in 2012/2013 as rates were not sufficiently favourable, the Council continued to benefit from the ongoing savings from past rescheduling exercises.

Prudential Indicators continued to be reviewed on a daily basis and the Council was well within the limits set. The investment policy was also reviewed regularly to ensure that it was flexible enough to take advantage of any changes in market conditions which would benefit the Council and the rate of return on investments continued to be significantly higher than the benchmark rate.

The Council's authorised lending list was regularly updated to reflect financial institution mergers and changes to credit ratings of institutions. The Approved Lending List at Appendix C to the report had been amended to take these changes into account.

Upon consideration of the report, it was: -

25. RESOLVED that the Treasury Management Performance for the third quarter of 2012/2013 be noted.

Audit Commission Annual Audit Letter 2011/2012

The Executive Director of Commercial and Corporate Services submitted a report presenting the Audit Commission's Annual Audit Letter for 2011/2012.

Gavin Barker, formerly of the Audit Commission and now with Mazars, reported that the Annual Audit Letter was extremely positive and the Audit Commission had issued an unqualified audit opinion on the Council's 2011/2012 financial statements and an unqualified conclusion that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of resources. He confirmed that the views of the previous External Auditor were that the Council: -

- Had proper arrangements in place to ensure its financial resilience.
- Had successfully delivered a 2011/2012 budget containing £58m cuts in government funding without the need for redundancies.
- Had closely monitored its budget during the year to ensure that savings and efficiencies were delivered effectively.
- Had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Was continuing to identify ways of improving service efficiencies and new ways of working and to improve service delivery and outcomes with fewer resources.

The Committee were pleased to receive the positive report from the Audit Commission and accordingly: -

26. RESOLVED that the Audit Commission's Annual Audit Letter for 2011/2012 be noted.

Certification of Claims and Returns – Annual Report 2011/2012

The Executive Director of Commercial and Corporate Services submitted a report detailing the Audit Commission's work which they had carried out for all grant claims and returns made by the Council for 2011/2012, which according to regulation, required an external audit opinion and/or audit certificate.

Three major claims had been looked at in 2011/2012, these being the Housing and Council Tax Benefit Scheme, the National Non-Domestic Rate (NNDR) Return and the Teachers' Pensions Return.

There had been an amendment to the NNDR Return which was as the result of an issue in the new system where some figures were not picked up correctly. However, the Council had suffered no loss in funding as a result of this amendment and the report was positive overall.

The Chair queried if the ICT problem could be experienced again in this financial year and was reassured that this had been a first year system issue and the necessary arrangements were being put in place to ensure that the correct figures would be identified for the 2012/2013 claim.

27. RESOLVED that the report be noted.

Counter Fraud Strategy

The Executive Director of Commercial and Corporate Services submitted a report asking the Committee to consider a Counter Fraud Strategy to support the delivery aims of the Anti Fraud and Corruption Policy.

The Anti Fraud and Corruption Policy had been in place for a number of years and the Audit Commission had identified that there was £179m worth of fraud detected in local government in 2011/2012. The Internal Audit Plan allocated time and resources to proactive counter fraud work and the importance of good anti-fraud arrangements was reflected in the Corporate Assurance Map.

The amount of fraud detected over the last few years had been relatively small but it was the fraud that may be unknown which was a cause for concern. The Counter Fraud Strategy was designed to enhance the arrangements already in place and pull together work carried out by the Internal Audit and Risk Assessment teams. The strategy would be essential in the challenging economic climate with the associated pressures which provided a suitable environment for committing fraud.

With regard to the review and developing arrangements which the Council had with partner organisations, Councillor Farthing noted that the NHS had a counter fraud body which could be a good source of guidance and information. It was also noted that some of the language from the Fraud Act was not very easy to understand and public facing documents would be produced using Plain English.

The Chair commented that the greatest fraud risk area would appear to be when dealing with external contractors and asked if there were individuals within the authority who had the necessary skills to detect fraud in that area. The Head of Corporate Assurance and Procurement advised that there were two accredited counter fraud specialists within the service and additional resource was being dedicated from the Audit team to look for fraud using a fraud risk assessment. PricewaterhouseCoopers had also offered some software which could help to identify fraud.

The Executive Director added that the culture in the organisation was positive with regard to fraud, detection work was rigorous and employees were able to raise any issues comfortably.

Having considered the report, the Committee: -

28. RESOLVED that the Counter Fraud Strategy be agreed.

Corporate Assurance Map – Consultation for 2013/2014

The Head of Corporate Assurance and Procurement submitted a report outlining the areas of work expected to be a priority for Internal Audit and the Risk and Assurance team in the next financial year and seeking the views of the Committee on the Corporate Assurance Map for 2013/2014.

It was highlighted that the resource which was to be dedicated to counter fraud work would need to be added into the plan and Councillor Farthing asked if external fraud was covered within this plan regarding claims against the Council.

The Head of Corporate Assurance and Procurement informed the Committee that the Council did receive a large number of claims but had a high repudiation rate. Where there were suspicions that a claim may be fraudulent, the local authority would work with Police and fraud specialists to identify any false claims. He also highlighted that very few claims were above the level at which insurers would have to pay out.

The Executive Director reported that over the next year there would be a lot more activity on alternative service delivery models and the Internal Audit and Risk and Assurance plans would reflect this.

29. RESOLVED that the comments of the Committee in relation to the Internal Audit plan and Corporate Assurance Map for 2013/2014 be noted.

(Signed) G N COOK
Chairman

AUDIT AND GOVERNANCE COMMITTEE

8 February 2013

**TREASURY MANAGEMENT POLICY AND STRATEGY 2013/2014,
INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS
FOR 2013/2014 TO 2015/2016**

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

- 1.1 To inform the Audit and Governance Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2013/2014 and to note the Prudential 'Treasury Management' Indicators for 2013/2014 to 2015/2016 and to provide comments to Cabinet and Council on the proposed policy and indicators where appropriate.

2. Description of Decision

- 2.1 Committee is requested to:

Provide any appropriate comments to Cabinet / Council on the proposed:

- 2013/2014 Annual Treasury Management Policy and Strategy (including specifically the Annual Borrowing and Investment Strategies);
- Prudential 'Treasury Management' Indicators.

3. Treasury Management

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

3.2 Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Management Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable, these are set out in Appendix 1.

The Act also requires the Council to adopt a Treasury Management Policy Statement (detailed in Appendix 2) and to set out its Treasury

Management Strategy comprising: the Council's strategy for borrowing and the Council's policies, for managing its investments, and giving priority to the security and liquidity of those investments (Appendix 3).

The Department of Communities and Local Government issued revised investment guidance which came into effect from 1 April 2010 and the Chartered Institute of Public Finance and Accountancy (CIPFA) has updated its 'Treasury Management in the Public Services Code of Practice' in November 2011. Revisions made in the Code of Practice were largely regulatory updates to reflect developments resulting from the Localism Act 2011 and in particular changes to the way that local authority housing finance operate. The Council adopted the amended CIPFA Code of Practice.

3.3 CIPFA requirements

The CIPFA Code of Practice on Treasury Management has been fully adopted by this Council.

The primary requirements of the Code are as follows:

1. The Council will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
 - suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement is detailed in Appendix 2 and the TMP's follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments which are minor in nature do not result in the Council deviating from the Code's key principles and requirements.

2. The Council will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Executive Director of Commercial and Corporate Services, who acts in accordance with the organisation's Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council's Audit and Governance Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Strategy for 2013/2014

- 3.4 The Treasury Management Strategy comprises a Borrowing and an Investment Strategy. These set out the Council's policies for managing its borrowing and investments and for giving priority to the security and liquidity of investments.
- 3.5 There are no major changes being proposed to the overall Treasury Management Strategy in 2013/2014 which maintains the careful and prudent approach adopted by the Council in previous years. Particular areas that inform the strategy include the extent of potential borrowing included in the Council's capital programme, the availability of borrowing, and the current and forecast world and UK economic position, in particular forecasts relating to interest rates and security of investments.
- 3.6 The proposed Treasury Management Strategy Statement for 2013/2014 is set out in Appendix 3 and is based upon the views of the Executive Director of Commercial and Corporate Services, supplemented with market data, market information and leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.
- 3.7 The strategy is subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate. It is pleasing to note that the Council's current average rate of borrowing at 3.51% is low in comparison with other local authorities whilst the current rate earned on investments at 1.89% is higher than the benchmark rate. The council's TM performance is also benchmarked with the majority of local authorities and is highly ranked within the top quartiles for both its low average rate of borrowing and also for the rate of return achieved on its investments. Debt rescheduling undertaken by the Council in previous years has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. Market conditions are under constant review so that the Council can take a view on the optimum time to carry out further borrowing or debt rescheduling.

4. Recommendation

- 4.1 To comply with statutory requirements, Committee is requested to provide any appropriate comments to Cabinet / Council on the proposed:
 - 2013/2014 Annual Treasury Management Policy and Strategy (including specifically the Annual Borrowing and Investment Strategies);
 - Prudential 'Treasury Management' Indicators.
- 4.2 No alternatives are submitted for consideration.

Prudential ‘Treasury Management’ Indicators 2013/2014 to 2015/2016

The indicators below relate to Treasury Management (all indicators relating to capital financing have been removed for clarity and can be found in the Capital Programme 2013/2014 and Treasury Management Policy and Strategy 2013/2014, including Prudential Indicators for 2013/2014 to 2015/2016 report to Cabinet – 13th February 2013).

- P5 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt, gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Council is asked to approve these limits and to delegate authority to the Executive Director of Commercial and Corporate Services, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to Cabinet and the Council at the next meetings following the change.

	Authorised Limit for External Debt			
	2012/2013	2013/2014	2014/2015	2015/2016
	£000	£000	£000	£000
Borrowing	342,396	366,139	406,525	417,700
Other long term liabilities	34,928	32,463	31,893	30,294
Total	377,324	398,602	438,418	447,994

The Executive Director of Commercial and Corporate Services reports that these authorised limits are consistent with the Authority’s current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Executive Director of Commercial and Corporate Services also confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes. It should be noted that the Council undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in Sunderland’s borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing for the Council. A specific element of risk has also been taken into account for these bodies.

In taking its decisions on the Revenue Budget and Capital Programme for 2013/2014, the Council is asked to note that the authorised limit determined for 2013/2014, (see P5 above), will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

- P6 The Council is also asked to approve the following operational boundary for external debt for the same time period and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst case scenario level, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the Executive Director of Commercial and Corporate Services, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, similar to the authorised limit set out above.

The operational boundary limit will be closely monitored and a report will be made to Cabinet and Council if it is exceeded at any point. In any financial year, it is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be broken temporarily as a result of the timing of debt rescheduling.

	Operational Boundary for External Debt			
	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000
Borrowing	304,083	322,863	363,852	375,606
Other long term liabilities	34,928	32,463	31,893	30,294
Total	339,011	355,326	395,745	405,900

- P7 The Council's actual external debt at 31st March 2012 was £251.142 million and was made up of actual borrowing of £217.582 million and actual other long term liabilities of £33.560 million.

The Council includes an element for long-term liabilities relating to PFI schemes and finance leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for cash flow variations.

- P9 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised Code is fully adopted by full council and confirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

- (a) capital expenditure plans are affordable;
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice;

and that in taking decisions in relation to (a) to (c) above the local authority is

- (d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

- (e) local strategic planning;
- (f) local asset management planning;
- (g) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2013/2014 to 2015/2016.

- P10 It is recommended that the Council sets an upper limit on its fixed interest rate exposures of £235 million in 2013/2014, £295 million in 2014/2015 and £300 million in 2015/2016.
- P11 It is further recommended that the Council sets an upper limit on its variable interest rate exposures of £50 million in 2013/2014, £60 million in 2014/2015 and £60 million in 2015/2016.
- P12 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
over 50 years	100%	0%

P13 A maximum maturity limit of £75 million is set for each financial year (2013/2014, 2014/2015 and 2015/2016) for long term investments, (those over 364 days), made by the authority. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The type of investments to be allowed are detailed in the Annual Investment Strategy (Appendix 3).

At present the Council has £16.787 million of long-term investments. This is £16.767 million for the value of share capital held in NIAL Holdings PLC. This equates to a 9.62% overall shareholding in Newcastle International Airport. The Council also holds £0.020 million in government securities, other shares and unit trusts.

Treasury Management Policy Statement

In line with CIPFA recommendations, the Council adopted the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Council defines its treasury management activities as: “The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 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, and any financial instruments entered into to manage these risks.
- 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.

The Council has an agreed Borrowing and Investment Strategy, the high level policies of which are as follows:

The basis of the agreed Borrowing Strategy is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council’s future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 4.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities, as appropriate.

The general policy objective for the Council in considering potential investments is the prudent investment of its treasury balances.

- the Council’s investment priorities in order of importance are:
 - 1) The security of capital
 - 2) The liquidity of its investments and then
 - 3) The Council aims to achieve the optimum yield on its investments but this is commensurate with the proper levels of security and liquidity.

- the Council has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert TM advice, view of money market conditions and using detailed rating agency information as well as using our own market intelligence.
- Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List and detailed criteria

The Council re-affirms its commitment to the Treasury Management Policy and Strategy Statement.

Treasury Management Strategy Statement for 2013/2014

1. Introduction

- 1.1 The Local Government Act 2003 and subsequent guidance requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2013/2014 is set out below and is based upon the Executive Director of Commercial and Corporate Services views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Council's treasury adviser, Sector Treasury Services.

- 1.2 The treasury management strategy covers:

A. Borrowing Policy and Strategy

- treasury limits for 2013/2014 to 2015/2016
- current treasury management position
- the borrowing requirement 2013/2014
- prudential and treasury management Indicators for 2013/14 to 2015/16
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling

B. Annual Investment Policy and Strategy

- Investment policy and objectives
- the investment strategy
- investment types
- investments defined as capital expenditure
- investment limits
- provision for credit related losses
- creditworthiness policy
- monitoring of credit ratings
- past performance and current position
- outlook and proposed investment strategy
- external fund managers
- policy on use of external service providers

2. Borrowing Policy and Strategy

2.1 Treasury Limits for 2013/14 to 2015/16

It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and

Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and two successive financial years and details can be found in Appendix 1 of this report. The Council is asked to approve these limits and to delegate authority to the Executive Director of Commercial and Corporate Services, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long term liabilities where this would be appropriate. Any such changes made will be reported to Cabinet and the Council at their next meetings following the change.

Also, the Council is asked to approve the Operational Boundary Limits which are included in the Prudential Indicators (Appendix 1). This operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Council is also asked to delegate authority to the Executive Director of Commercial and Corporate Services, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

2.2 Current Treasury Management Position

2.2.1 Interest Rates 2012/2013

The Bank of England Base Rate has remained at 0.50% since 5th March 2009 and Economists are united in their forecasts for the Bank Base Rate, with no change to the current 0.5% predicted until after the December 2014 quarter at the earliest. PWLB rates and bond yields remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone. This uncertainty is expected to continue into the medium term.

The government announced in the March 2012 budget plans to introduce a 0.20% discount on PWLB loans under the prudential borrowing regime for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans' and who successfully applied and were eligible for the lower rate. The Council successfully applied to access loans at the lower PWLB certainty rate, which came into effect on 1st November 2012 and eligibility lasts until 31st October

2013 when authorities must reapply to access the PWLB certainty rate for the following 12 months.

Loan Type	31st March 2012 %	31st December 2012* %	Difference %
7 Day Notice	0.46	0.36	(0.10)
1 Month	0.57	0.37	(0.20)
PWLB – 1 Year	1.28	1.03	(0.25)
5 Years	2.05	1.70	(0.35)
10 Years	3.21	2.64	(0.57)
25 Years	4.32	3.87	(0.45)
50 Years	4.36	4.03	(0.33)

*Rates at 31/12/12 take into account a 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

2.2.2 Long Term Borrowing 2012/2013

The Council's strategy for 2012/2013 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set in the Treasury Management Policy and Strategy Statement for 2012/2013. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 25th January 2013, and no debt rescheduling has been undertaken as rates have not been considered sufficiently favourable.

The Council has nine market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and the Council can either accept the new rate or repay the loan without penalty. The following table shows the LOBO's that were subject to a potential rollover this financial year, no changes have been received to date and none are expected for the other 2 outstanding LOBO's held with Dexia.

<u>Roll Over Dates</u>	Lender	Amount £m	Rate %	Roll Over Periods
21/04/2012 and 21/10/2012	Barclays	5.0	4.50	Every 6 months
29/09/2012	Dexia	5.0	4.32	every 3 years
03/02/2013	Dexia	5.0	4.37	every 3 years
22/02/2013	Dexia	5.0	4.38	every 3 years
Total		20.0		

2.2.3 Current Portfolio Position

The Council's treasury portfolio position at 31st December 2012 comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	142.9		
	Market (LOBO's)	24.5		
	Other	0.3	167.7	3.90
Variable Rate Funding	PWLB	0.0		
	Market (LOBO's)	15.0		
	Temporary / Other	29.2	44.2	2.01
Total Borrowing			211.9	3.51
Total Investments				
	In House—short term*		238.9	1.89
	Long term		14.9	8.60
	Total Investments		253.8	
Net Position			41.9	

* The total investments figure includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body.

The Council currently has an excess of £41.9 million representing the difference between gross debt and total investments. However this position is expected to change over the next few years as the Council has to manage its finances with significantly less government funding. This could impact in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council will increase.

There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable amount of investments.

Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Council is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps the Council to address its Strategic Priorities;
- the Council has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

Risks associated with holding a high level of investments are;

- the Counterparty risk – institutions cannot repay the Council investment placed with them;
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Council.

The Council has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

2.3 Borrowing Requirement 2013/2014

The Council's borrowing requirement is as follows:

		2013/14 £m	2014/15 £m	2015/16 £m
1.	Capital Borrowing (potential)	44.4	42.2	14.6
2.	Replacement borrowing (PWLB)	5.0	10.0	0.0
3.	Replacement borrowing (Market)	0.0	0.0	0.0
4.	Market LOBO replacement (potential)	10.0	19.5	20.0
TOTAL – KNOWN (2+3)		5.0	10.0	0.0
TOTAL – POTENTIAL (1+4)		54.4	61.7	34.6

2.4 Prudential and Treasury Management Indicators for 2013/2014 – 2015/2016

Prudential and Treasury Indicators (as set out in Appendix 3) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 20th November 2002 and the revised 2009 Code was adopted by full Council on 3rd March 2010. The Code has been revised in November 2011 and the Council re-affirms its full adherence to the code, annually (as set out in Appendix 2).

2.5 Prospects for Interest Rates

The Council's treasury advisors are Sector Treasury Services and part of their service is to assist the Council to formulate a view on interest rates. A number of current City forecasts for short term (Bank Rate) and longer fixed interest rates are set out in Appendix 4. The following gives the Sector Treasury Services Bank Rate forecast for the next 4 financial years.

- 2012/2013 0.50%
- 2013/2014 0.50%
- 2014/2015 0.50% - 0.75%

- 2015/2016 0.75% - 1.75%

There are downside risks to these forecasts (i.e. increase in Bank Rate is delayed further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate. A detailed view of the current economic background is contained within Appendix 5 to this report. The position will be closely monitored to ensure the Council takes appropriate action as necessary under either scenario.

2.6 Borrowing Strategy

2.6.1 Borrowing rates

The Sector forecast in respect of interest rates for loans charged by the PWLB is as follows: -

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

A more detailed forecast from Sector is included in Appendix 4.

The main sensitivities of the forecast are likely to be;

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

Council officers, in conjunction with the Council's treasury advisers, monitor both the prevailing interest rates and the market forecasts. With long-term interest rate forecasts set to remain around their current

levels the Executive Director of Commercial and Corporate Services, taking into account the advice of the Council's treasury adviser considers a benchmark financing rate of 4.50% for any further long-term borrowing for 2013/2014 to be appropriate.

Consideration will be given to various options, including utilising some investment balances to fund the borrowing requirement in 2013/2014. The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required, and flexibility needs to be retained to adapt to any changes that may occur.

The Executive Director of Commercial and Corporate Services, taking advice from the Council's treasury advisers will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

2.7 Policy on borrowing in advance of need

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

Risks associated with any borrowing in advance of activity will be subject to prior appraisal and borrowing undertaken will be reported to Cabinet as part of the agreed treasury management reporting arrangements.

2.8 Debt Rescheduling

The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. For example, since November 2008 the Council has rescheduled debt worth £59.5 million with an ongoing reduction in interest costs of just under £1.0 million per annum. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than

solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Council.

The latest interest rate projections for 2013/2014 show short term borrowing rates will be considerably cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred), their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The Council is keeping a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

Any rescheduling undertaken will be reported to Cabinet, as part of the agreed treasury management reporting arrangements.

3. Annual Investment Policy and Strategy

3.1 Investment Policy and Objectives

When considering its investment policy and objectives, the Council has taken regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council's investment objectives are: -

- (a) the security of capital, and
- (b) the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments but commensurate with proper levels of security and liquidity. The risk appetite of the Council is regarded as low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

3.2 Investment Strategy

This Strategy sets out:

- the procedures for determining the use of each class of investment (advantages and associated risk), particularly if the

investment falls under the category of “non-specified investments”;

- the maximum periods for which funds may be prudently committed in each class of investment;
- the amount or percentage limit to be invested in each class of investment;
- whether the investment instrument is to be used by the Council’s in-house officers and/or by the Council’s appointed external fund managers, (if used); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council’s treasury advisers;
- the minimum amount to be held in short-term investments (i.e. an investment which the Council may require to be repaid or redeemed within 12 months of making the investment).

3.3 Investment Types

The Council is allowed to invest in two types of investment, namely Specified Investments and Non-specified Investments.

Specified Investments are those investments that are for a period of less than one year, are not classed as capital expenditure, and are placed with high credit rated counterparties.

Non-specified Investments are any investments which are not classified as specified investments. As the Council only uses high credit rated counterparties this means in effect that any investments placed with those counterparties for a period of one year or more will be classed as Non-specified Investments. Any investment by the Council in this type of investment whether classed as capital expenditure (see 3.4 below) or as a simple revenue investment will be subject to a full appraisal and reported to Cabinet for approval.

The type of investments to be used by the in-house team will be limited to term deposits, interest bearing accounts, Money Market Funds, treasury bills and gilt edged securities and will follow the criteria as set out in Appendix 6.

3.4 Investments Defined as Capital Expenditure

The acquisition of share capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments have to be funded out of capital or revenue resources and are classified as ‘non-specified investments’.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan has been made for policy reasons or if it is an investment for treasury management purposes. Only the latter will be governed by the framework set by the Council for ‘specified’ and ‘non-specified’ investments.

3.5 Investment Limits

One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the Council's Counterparty criteria set out in Appendix 6.

The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £50 million. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of these short-term investments maturing within 6 months.

A maximum limit of £75 million is to be set for in-house non-specified investments over 364 days up to a maximum period of 2 years. This amount has been calculated by reference to the Council's cash flows, including the potential use of earmarked reserves. The Executive Director of Commercial and Corporate Services will monitor long-term investment rates and identify any investment opportunities if market conditions change.

3.6 Provisions for Credit Related Losses

If any of the Council's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. This position has not occurred and the Council mitigates this risk with its prudent investment policy.

3.7 Creditworthiness policy

The creditworthiness policy adopted by this Council takes into account not only the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also, available market data and intelligence such as Credit Default Swap levels and share prices, the level of government support to financial institutions and advice from its Treasury Management advisors.

Set out in Appendix 6 is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. When a counterparty is rated differently by any of the 3 rating agencies, the lowest rating criteria will be used to determine the level of investment.

3.8 Monitoring of Credit Ratings

- All credit ratings are monitored on a daily basis. The Council has access to all three credit ratings agencies and is alerted to changes through its use of the Sector Treasury Services credit worthiness service.

- If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the Council will cease to place funds with that counterparty. The Council will also immediately inform its external fund manager(s), if used, to cease placing funds with that counterparty.
- If a counterparty rating is downgraded with the result that, their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment limit and vice versa. The Council will also immediately inform its external fund manager(s), if used, of any such change(s).

Should fund managers be employed by the Council, the Council will establish with its fund manager(s) their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their adherence to the Council's policy.

The ratings agencies have reaffirmed the UK's AAA sovereign rating. They have, though, warned that this could be reviewed if Government policy were to change, or was seen to be failing to achieve its desired outcome. Should the UK Government AAA sovereign rating be withdrawn the Council's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to Cabinet.

3.9 Past Performance and Current Position

During 2012/2013 the Council did not employ any external fund managers, all funds being managed by the in-house team. The performance of the fund by the in-house team is shown below and compares this with the relevant benchmarks and performance from the previous year:

	2011/12	2011/12	To date	To date
	Return	Benchmark	2012/13	2012/13
	%	%	%	%
Council	1.62	0.49	1.89	0.41

During 2013/2014 the Council will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Council uses the 7 day London Interbank Bid (LIBID) rate as a benchmark for its investments. The performance of the Council compared well with other local authorities and is in the top quartile.

3.10 Outlook and Proposed Investment Strategy

Based on its cash flow forecasts, the Council anticipates its fund balances in 2013/2014 are likely to range between £100 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2013/2014, with short-term interest rates forecast to be materially below long-term rates, it is possible that some investment balances may be used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

The Council is not committed to any investments, which are due to commence in 2013/2014, (i.e. it has not agreed any forward deals).

Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing), will affect cash flow and short term investment balances;
- Any re-profiling of capital expenditure from, and to, other financial years will also affect cash flow, (no re-profiling has been taken into account in current estimates);
- Any unexpected capital receipts or income;
- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

The Executive Director of Commercial and Corporate Services, in conjunction with the Council's treasury adviser Sector Treasury Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

It is proposed that delegated authority continues for the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for Resources, to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively, in accordance with normal treasury management reporting procedures.

3.11 External fund managers

At present the Council does not employ any external fund managers.

Should the Council appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These external fund managers will work to the following parameters:

The institutions on the Approved Lending list of the external manager must correspond to those agreed with Sunderland City Council (i.e. only institutions on Sunderland City Council's Approved Lending List to be included as shown in Annex D);

- they will be allowed to invest in term deposits, Certificates of Deposit (CD's) and government gilt securities;
- An investment limit of £3 million per institution (per manager);
- A maximum limit of 50% fund exposure to government gilts;
- A maximum proportion of the fund invested in instruments carrying rates of interest for periods longer than 364 days shall not exceed 50%. It is proposed to only recommend the use of fixed term deposits up to a maximum of 2 years.

3.12 Policy on the use of external service providers

The Council uses Sector as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remain with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

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

4. Scheme of delegation

- 4.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy (TMS) is approved annually by the full Council and receives, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. In addition quarterly reports are made to Cabinet and the Audit and Governance Committee and monitoring reports are reviewed by members in both executive and scrutiny functions respectively. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council has the following reporting arrangements in place in accordance with the requirements of the Code – these are summarised in the table as follows:

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement (revised)	Full Council	Reaffirmed annually and updated as appropriate
Treasury Management Strategy / Annual Investment Strategy	Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – mid year report	Full Council	Mid year
Treasury Management Strategy / Annual Investment Strategy –updates or revisions at other times	Full Council	As appropriate
Annual Treasury Management Outturn Report	Full Council	Annually by 30/9 after the end of the financial year
Treasury Management Monitoring Reports	Executive Director of Commercial and Corporate Services	Monthly
Treasury Management Practices	Executive Director of Commercial and Corporate Services	Annually
Scrutiny of Treasury Management Strategy	Cabinet / Audit and Governance Committee	Annually before Full Council
Scrutiny of Treasury Management Performance	Cabinet / Audit and Governance Committee	Quarterly

5. The Treasury Management Role of the Section 151 Officer

- 5.1 The Executive Director of Commercial and Corporate Services is the Council's Section 151 Officer and has specific delegated responsibility in the Council's Constitution to manage the borrowing, financing, and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council. This includes;
- 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.

Interest Rate Forecasts

The data set out overleaf shows a variety of forecasts published by Sector Treasury Services, Capital Economics (an independent forecasting consultancy) and UBS (which represents summarised figures drawn from the population of all major City banks and academic institutions).

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector's Interest Rate View															
	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.40%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%	1.90%
6 Month LIBID	0.56%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%	2.20%
12 Month LIBID	0.92%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%	2.40%
5yrPW LB Rate	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yrPW LB Rate	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yrPW LB Rate	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yrPW LB Rate	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yrPW LB Rate															
Sector's View	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.66%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.66%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yrPW LB Rate															
Sector's View	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.64%	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.64%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yrPW LB Rate															
Sector's View	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	3.88%	4.00%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	3.88%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yrPW LB Rate															
Sector's View	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.04%	4.10%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.04%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

2. **Survey of Economic Forecasts**

2. **Survey of Economic Forecasts**

HM Treasury January 2013

The current Q4 2012 and 2013 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury December 2012 report.

BANK RATE FORECASTS	quarter ended		annual average Bank Rate		
	Q4 2012	Q4 2013	ave. 2014	ave. 2015	ave. 2016
Median	0.49%	0.53%	0.74%	1.44%	2.04%
Highest	0.50%	1.50%	1.60%	4.02%	3.60%
Lowest	0.25%	0.25%	0.25%	0.50%	0.50%

Economic Background

1.1 Global economy

The Eurozone debt crisis has continued to depress growth in most countries within the World. This has impacted on the UK economy which is unlikely to grow significantly in 2012 and is creating problems that may hamper recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the UK economy and this recession is the worst and slowest recovery of any of the five recessions experienced since 1930. A return to growth of around 1% in quarter 3 is unlikely to prove anything more than a temporary improvement before a return to weak, or negative, growth in quarter 4.

Eurozone

The Eurozone sovereign debt crisis has abated following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which require a bailout. The immediate target for this action was Spain which continues to prevaricate on making such a request (for a national bailout) and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a critical point as the Eurozone faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many experts still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high, unless the Eurozone were to accept a major write down of Greek debt. The possibility of a write down has now been raised by the German Chancellor, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and the recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this solution to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

United States

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by with large amounts of quantitative easing (QE) combined with a commitment to a continuation of very low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener to economic growth discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy if not resolved. However, the housing market does look as if it has reached the bottom and house prices are now beginning to increase.

Emerging Markets

Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over warning signs in various parts of the Chinese economy that indicate it could be in risk of heading for a hard landing rather than a gradual slow down.

1.2 UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended (in the autumn statement) over a longer period than the original four years now into 2017/18. Achieving this new extended time frame will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period. It was important for the Government to carry out these measures to retain investor confidence in the UK.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is little evidence that consumer confidence levels are recovering or that the manufacturing sector is picking up. On the positive side, growth in the services sector rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact. Finally, the housing market remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth

Economic growth has remained flat since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any short-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment

The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate

Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to

2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating

The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

1.3 Economic Forecast

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;
- stimulus packages failing to stimulate growth;
- elections due in Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.
- the potential for action to curtail the Iranian nuclear programme

- the situation in Syria deteriorating and impacting other countries in the Middle East

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, The Councils Treasury Advisers, Sector, sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields
- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held
- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth
- The possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's Aaa rating at the start of 2013).

Lending List Criteria

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisors.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	90	2 Years
AA+	F1+	A1+	Aa1	P-1	50	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80 million with a maximum of £40 million in any one fund.					80	Liquid Deposits
Local Authority controlled companies (#duration limited to 20 years in accordance with Capital Regulations)					20	#20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Appendix 6 (continued)

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350 million will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	40

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AAA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix 7

Appendix 7

Approved Lending List

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
UK	AAA				Aaa			AAA		350	2 years
Lloyds Banking Group (see Note 1)										Group Limit 90	
Lloyds Banking Group plc	A	F1	bbb	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										Group Limit 90	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	A-	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A	A-1	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A	A-1	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB+	A-2	90	2 years
Santander Group *										Group Limit 40	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A+	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

Appendix 7 (continued)

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Nationwide BS *	A+	F1	a+	1	A2	P-1	C	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	40	364 days
Clydesdale Bank / Yorkshire Bank **/**	A	F1	bbb	1	A2	P-1	C-	BBB+	A-2	0	
Co-Operative Bank Plc	BBB+	F2	bbb+	3	A3	P-2	C-	-	-	0	
Virgin Money ***	BBB	F3	bbb	5	-	-	-	BBB+	A-2	0	
Top Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS ***	BBB+	F2	bbb+	5	Baa2	P-2	C-	A-	A-2	0	
Coventry BS	A	F1	a	5	A3	P-2	C	-	-	5	6 Months
Skipton BS ***	BBB-	F3	bbb-	5	Ba1	NP	D+	-	-	0	
Leeds BS	A-	F2	a-	5	A3	P-2	C	-	-	5	6 Months
West Bromwich BS ***	-	-	-	-	B2	NP	E+	-	-	0	
Principality BS ***	BBB+	F2	bbb+	5	Ba1	NP	D+	-	-	0	
Newcastle BS ***	BB+	B	bb+	5	-	-	-	-	-	0	
Nottingham BS ***	-	-	-	-	Baa2	P-2	C-	-	-	0	
Foreign Banks have a combined total limit of £40m											
Australia	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

Appendix 7 (continued)

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term		
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa1	P-1	B	A+	A-1	20	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		40	Liquid
Insight Liquidity Fund					AAA			AAA		40	Liquid
Ignis Sterling Liquidity	AAA							AAA		40	Liquid

Notes

Note 1 Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a credit limit of £90 million

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme. The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

AUDIT AND GOVERNANCE COMMITTEE

8 February 2013

EXTERNAL AUDITOR - AUDIT PROGRESS REPORT AT 29 JANUARY 2013

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) first Audit Progress Report covering the period up to 29th January 2013.
- 1.2 The report will be presented by Gavin Barker, the council's Senior Engagement Manager.
- 1.3 The reports are to become a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities.
- 1.4 The reports also aim to highlight emerging issues and developments that may be of interest to members in their role on the Audit and Governance Committee.

2. Recommendations

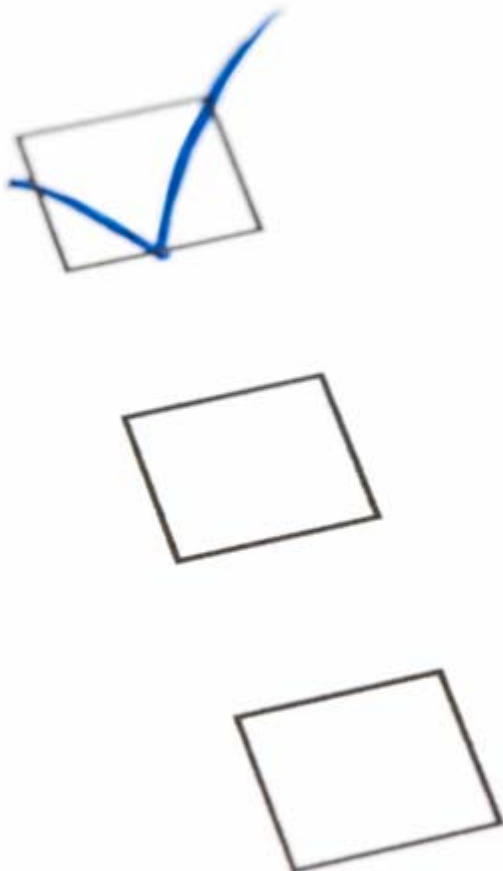
- 2.1 Members are asked to note the attached report.

Sunderland City Council

Audit Progress Report



29 January 2013



Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

01



Purpose of this paper

This paper updates the Audit and Governance Committee on our progress in meeting the responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

Finally, please note the website address www.mazars.co.uk which sets out the range of work Mazars carries out across the UK public sector. It also details the wider services provided within the UK and abroad.

02

Summary of audit progress



Progress on the 2012/13 audit has included:

- We have issued a fee letter to the Executive Director of Commercial and Corporate Services (EDoCCS) confirming that the audit fee is in line with the Audit Commission's scale fee for the Council of £179,562 for the audit and £16,050 for certifying your claims and returns, representing a 40% reduction on previous years
- Our audit planning is well underway – we have met with key officers to discuss the issues the Council faces and have developed an audit programme to address the key risk areas
- We have drafted our Audit Strategy Memorandum. This will be presented to the Audit and Governance Committee when it has been discussed and agreed with the EDoCCS. This will set out the significant risks we have identified for the audit, for both the opinion on the statement of accounts as well as the value for money conclusion, and our approach to the audit.

03

Emerging issues and developments



The following pages outline some significant emerging issues and developments that Members and officers will be considering over the coming months:

- Localisation of business rates, and localising council tax support
- Tough Times 2012, Councils' responses to a challenging financial climate
- Reducing the costs of assessments and reviews
- Protecting the public purse 2012, Fighting fraud against local government
- Striking a balance , Improving councils' decision making on reserves
- Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting
- Consultation on 2013/14 audit fees and work programme
- Consultation on the Local Government Financial Settlement 2013/14
- Closedown workshops for finance staff

Emerging issues and developments

Issue / development

Localisation of business rates

Following consultation DCLG published details of the localisation of business rates. Local government will retain a 50 per cent local share of business rates and then keep a 50 per cent share of any growth generated, subject to a levy – which will be a maximum of 50p in the pound. DCLG also confirm that the safety net for when councils experience unexpected drops in revenue will guarantee a real terms income from business rates of 92.5 per cent.

Localising Council Tax support

The Local Government Finance Act which gained Royal assent in October 2012, allows local councils in England to design their own council tax support schemes from April 2013.

Tough Times 2012

This report finds that in 2011/12, the second year of the four-year Spending Review, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible with 12 per cent of councils not well-placed to deliver their 2012/13 budgets and a further 25 per cent will cope, but may struggle in the remaining years of the Spending Review period. The report is the second in the Audit Commission's Tough times series.

Emerging issues and developments

Issue / development

Reducing the costs of assessments and reviews

This Audit Commission report identifies how councils and their partners can achieve better value for money in performing social care assessments and reviews. It focuses on councils who have managed to keep their costs low while continuing to meet vulnerable people's needs.

The Commission has published a benchmarking tool to allow councils to assess and compare their costs, staffing and activity levels against others of similar type, geographic area, markets and scale of operation.

Protecting the public purse 2012

This Audit Commission report finds that councils are targeting their investigative resources more efficiently and effectively, detecting more than 124,000 cases of fraud in 2011/12 totalling £179 million. But it urges councils not to drop their guard, as new frauds are emerging in areas such as business rates and Right to Buy housing discounts.

The report contains an updated checklist which gives organisations an opportunity to consider how effective they are at responding to the risk of fraud.

Emerging issues and developments

Issue / development

Striking a balance, Improving councils' decision making on reserves

This Audit Commission report found that English councils held £12.9 billion in their reserves at 31 March 2012, and that reserves have increased by 36% in real terms since 2006/07.

The Commission has called upon councils to improve their decision making around reserves. Given the sums involved, and the current financial challenges, councils should focus more attention on their reserves and the purposes for which they hold them. All councils should ensure that their decisions have been clearly explained to taxpayers and service users.

Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting

This Audit Commission report summarises the financial reporting outcomes for local authorities and other bodies within its regime. Audit opinions were issued at 98% of councils by 30 September 2012. The report names authorities that produced their accounts early and also names those where there were delays or non standard wording to the auditor's reports.

Consultation on 2013/14 audit fees and work programme

The Audit Commission has proposed that the 2013/14 work programme will be unchanged and that the scale fees will therefore be unchanged from the 2012/13 fees.

Emerging issues and developments

Issue / development

Consultation on the Local Government Financial Settlement 2013/14

The financial settlement was published late in December 2012. Officers are currently assessing the impacts on 2013/14 and future years, as part of the budget preparations.

Final accounts workshops for finance staff

Mazars are providing a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2012/13 statement of accounts. The workshop is free for our clients and the Council has already booked places for the event in February 2013.

04

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