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Our Ref: DAM

Your Ref:

Date: 21st December, 2012

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Dear Sir/Madam,

A meeting of the **AUDIT COMMITTEE** will be held in Committee Room 'A', Town Hall, Nuneaton on Thursday, 10th January, 2013 at **6.00 p.m.**

Yours faithfully,

ALAN FRANKS

Managing Director

To: All Members of the
Audit Committee

(Councillors J. Haynes (Chair), J.B. Beaumont,
D. Fowler, P.J. Gilbert, A.A. Lloyd, G.D. Pomfrett,
G. Smith and Mrs. C. Bacon and Mrs. L. Nelson)

AGENDA

PART 1 – PUBLIC BUSINESS

1. EVACUATION PROCEDURE

A fire drill is not expected, so if the alarm sounds please evacuate the building quickly and calmly. Please use the stairs and do not use the lifts. Once out of the building, please gather outside the Yorkshire Bank on the opposite side of the road.

Exit by the door by which you entered the room or by the fire exits which are clearly indicated by the standard green fire exit signs.

If you need any assistance in evacuating the building, please make yourself known to a member of staff.

Please also make sure all your mobile phones are turned off or set to silent.

2. APOLOGIES - To receive apologies for absence from the meeting.

3. MINUTES - To confirm the minutes of the meeting of the Audit Committee held on 8th November, 2012. **(Page 4)**.

4. DECLARATIONS OF INTEREST - To receive declarations of Disclosable Pecuniary and Other Interests, in accordance with the Members' Code of Conduct.

Note: Following the adoption of the new Code of Conduct, Members are reminded that they should declare the existence and nature of their personal interests at the commencement of the relevant item (or as soon as the interest becomes apparent). If that interest is a Disclosable Pecuniary or a Deemed Disclosable Pecuniary Interest, the Member must withdraw from the room.

Where a Member has a Disclosable Pecuniary Interest but has received a dispensation from Standards Committee, that Member may vote and/or speak on the matter (as the case may be) and must disclose the existence of the dispensation and any restrictions placed on it at the time the interest is declared.

Where a Member has a Deemed Disclosable Interest as defined in the Code of Conduct, the Member may address the meeting as a member of the public as set out in the Code.

Note: Council Procedure Rules require Members with Disclosable Pecuniary Interests to withdraw from the meeting unless a dispensation allows them to remain to vote and/or speak on the business giving rise to the interest.

Where a Member has a Deemed Disclosable Interest, the Council's Code of Conduct permits public speaking on the item, after which the Member is required by Council Procedure Rules to withdraw from the meeting.

5. PUBLIC CONSULTATION - Members of the public will be given the opportunity to speak on specific agenda items if notice has been received.
6. CERTIFICATION WORK REPORT 2011/12 – report to be presented by Neil Preece, Grant Thornton attached. **(Page 7)**
7. TREASURY MANAGEMENT MONITORING Q3, 2012/13 - report of the Treasury and Technical Manager attached. **(Page 17)**
8. ANY OTHER ITEMS which in the opinion of the Chair of the meeting should be considered as a matter of urgency because of special circumstances (which must be specified).

NUNEATON AND BEDWORTH BOROUGH COUNCIL

AUDIT COMMITTEE

8th November, 2012

A meeting of the Audit Committee was held at the Town Hall, Nuneaton, on Thursday 8th November, 2012.

Present

Councillor J. Haynes (Chair)

Councillors J. B. Beaumont, D. Fowler, A.A. Lloyd, G. Smith and Mrs C. Bacon and Mrs. L. Nelson

230 **Minutes**

RESOLVED that the minutes of the meeting held on 11th September, 2012 be confirmed and signed by the Chair.

231 **Declarations of Interest**

Councillor A.A. Lloyd declared an Other Interest by reason of him being a Governor of George Eliot Hospital.

232 **Nuneaton and Bedworth Borough Council Annual Audit Letter 2011/12**

A letter from John Gregory, District Auditor which summarised his findings of the 2011/12 audit of Nuneaton and Bedworth Borough Council was considered.

RESOLVED that the Nuneaton and Bedworth Borough Council Annual Audit Letter 2011/12 be noted with pleasure.

233 **Review of the effectiveness of Internal Audit**

Mr R. Gaughran, Head of Welland Internal Audit Consortium provided details of his proposal for carrying out a review of the effectiveness of internal audit. He also spoke to the Committee on the new International Internal Audit Standards to be applied from April, 2013 and the requirement for an evaluation of the effectiveness of internal audit to be carried out by suitably qualified persons.

RESOLVED that Mr Gaughran be commissioned to produce a report to the Audit Committee for the March 2013 meeting.

234 **Internal Audit Half Yearly Report 2012/13**

The Audit and Governance Manager submitted a report on the work carried out by the Internal Audit Section during the first half of 2012-13 and progress against the Plan.

RESOLVED that

(a) the Audit and Governance Manager seek clarity on the information that can be communicated to Councillors about Anti Social Behaviour Orders; and

(b) the performance of the Internal Audit section as set out in the Internal Audit Half Yearly report 2012/13, progress against the Audit Plan at Appendix A and the Key findings in Appendix B be noted.

235 **Anti Fraud, Corruption and Bribery Strategy**

The Audit and Governance Manager submitted the Anti Fraud, Corruption and Bribery Strategy for adoption and approval.

RESOLVED that

(a) it be recommended to Cabinet to adopt and approve the Anti Fraud, Corruption and Bribery Strategy attached as Appendix A to the report ; and

(b) subject to (a) above, it be recommended to Full Council that the Strategy be incorporated into the Council's Constitution.

236 **Treasury Management Monitoring Quarter 2, 2012/13**

The report of the Treasury and Technical Manager, reviewing the treasury management activities of this authority in accordance with the CIPFA Code of Treasury management was considered.

RESOLVED that

(a) the Treasury Management Monitoring Report Quarter 2 2012/13 be noted;

(b) thanks be passed to the Treasury and Technical Manager and his team for carrying out an excellent job in difficult financial times; and

- (c) that the electric bill for lighting which had been previously requested be made available at the next meeting for discussion.

Chair

Nuneaton & Bedworth Borough Council

Certification work report 2011/12

December 2012

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1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Four claims and returns for the financial year 2011/12 have been certified, relating to expenditure of £83.5 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

- 1.6 It should be noted that all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditor's work.
- 1.7 A summary of all claims and returns subject to certification and details of the certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall the Council is performing well and there are no significant matters arising from our certification of claims and returns. This year saw significant improvements in the accuracy of the data entry supporting the Housing and Council Tax Benefit claim.
Supporting working papers	Supporting working papers for all claims and returns were good, which enabled certification within the deadlines.

Acknowledgements

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

Grant Thornton UK LLP

December 2012

2 Results of our certification work

Key messages

- 2.1 Four claims and returns for the financial year 2011/12 have been certified, relating to expenditure of £83.5 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		4		6		
Number of claims submitted on time	100%	4	100	6	100	→
Number of claims certified on time	100%	4	100	6	100	→
Number of claims certified with amendment	0%	1	25	2	33	↑
Number of claims certified with qualification	0%	1	25	1	17	↓

- 2.3 This analysis of performance shows that two claims did not require certification in 2011/12. The Housing Finance Base Data return was not required following the move to Housing Revenue Account self-financing, and the Advantage West Midlands (AWM) Camp Hill claim did not require certification following the disbanding of AWM.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Your previous auditors, the Audit Commission, charged a total fee of £15,809 against an indicative budget of £35,000 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

- 2.6 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

Certification of Housing & Council Tax Benefit claim

- 2.7 Last year's report noted "In total, of 275 cases tested, 63 (23 per cent) had not been assessed in accordance with the regulations. While the scheme is very complex, the accuracy of the amounts paid to claimants is undermined by poor quality data entry. My predecessor reported similar data entry errors last year. In response to this officers restructured the quality assurance team as part of the lean systems review and reviewed and prioritised training needs."
- 2.8 The report also stated that, since April 2010 "the number of errors identified each month has been reasonably consistent until March and April 2011, which showed further improvement. This may be an indication that the new arrangements are improving the quality of data entry. However, based on my work for 2010/11, it is too early to reach a firm conclusion and officers will need to continue to monitor the trends."
- 2.9 We are very pleased to be able to report that the initial testing of 79 cases this year identified only one case where incorrect data entry had caused benefit to be underpaid. While additional testing was required to ascertain how widespread this error was, no further errors were identified. This represents a very significant improvement on the error rate from last year. The Audit Commission, as your previous auditor, were able to certify the claim on 16 October – 6 weeks before the 30 November deadline.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£000)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	46,022	Yes	30,427	Yes	33,875	12,410	Significant improvement in underlying data in 11/12
National non-domestic rates return	31,561	No	-	No	1,205	2,082	Cyclical requirement for full testing in 11/12
Pooling of housing capital receipts	850	No	-	No	85	807	De-minimis in 10/11
Housing subsidy	5,040	No	-	No	501	510	Unchanged
Total	83,473		30,427		35,666	15,809	



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AGENDA ITEM NO. 7

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to : Audit Committee – 10th January 2013

From : Treasury & Technical Manager

Subject : Treasury Management Monitoring Q3 2012/13

1. Purpose of Report

1.1 To inform Members of the Audit Committee of the treasury management activities of this authority in accordance with the CIPFA Code of Treasury Management (Revised 2009).

2. Recommendations

2.1 That the Audit Committee note the report.

3. Economic Summary

3.1 The 3rd Quarter of 2012/13 saw the following key points:

- UK growth forecasts revised down with the Bank of England suggesting that growth in 2 years time will be 1.7%, down from its 2% forecast 3 months ago;
- UK Consumer Price Inflation surged to a five month high of 2.7% in October, up from 2.2% in September. The biggest contributors to this rise are probably the increase in university tuition fees to £9,000 and rising food prices;
- The number of Britons out of work fell in the three months through October, falling 82,000 to 2.51m. This figure was the lowest since March – May 2011;
- Unemployment rate stayed at 7.8% of the economically active population.

4. Economic Outlook

- 4.1 Sector (treasury management advisors) continue to review the economic situations in both the UK and the rest of the world and the table below details the current forecast from Sector (November 2012):

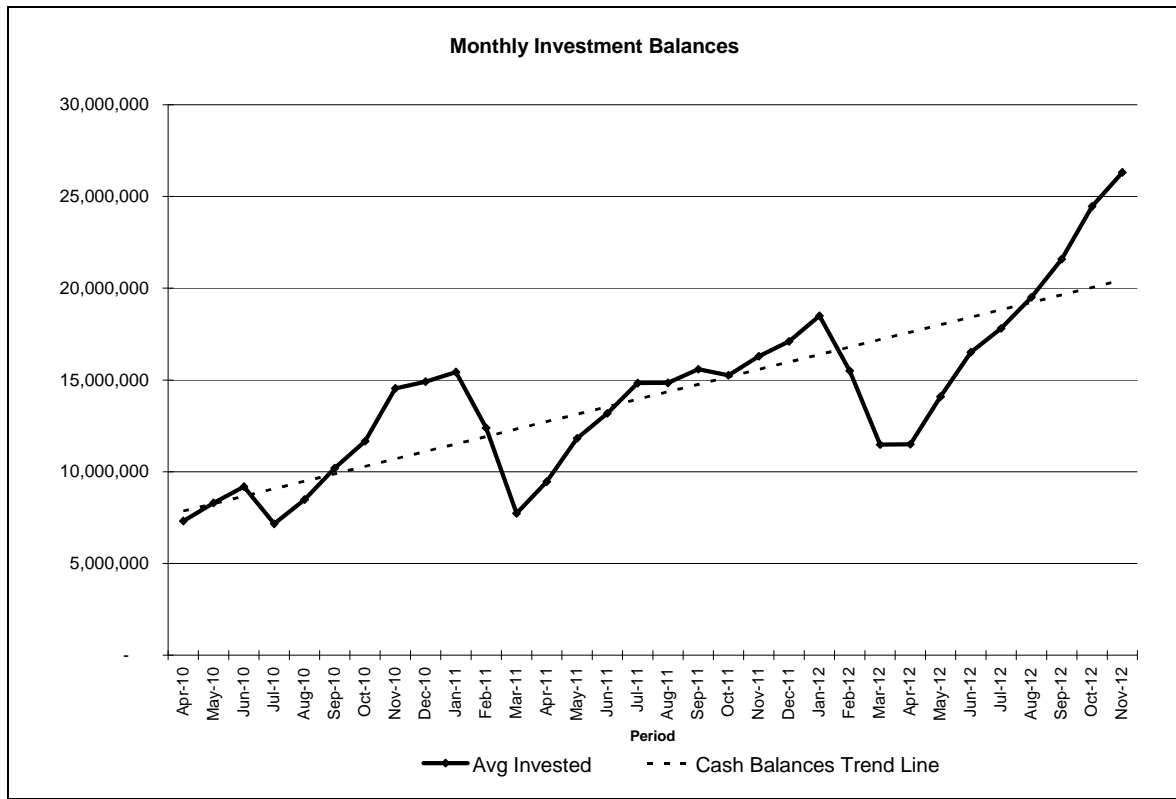
Sector's Interest Rate View										
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank Rate Forecast:										
@ Aug 12	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
@ Nov 12	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
Borrowing Rates (Nov 12 Forecast):										
5yr PWLB	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

- 4.2 As can be seen from this forecast, Sector have pushed back their expectations of the timing of the first increase in Bank Rate to early 2015, back from late 2014. Although we are still in a period where event risk is never far from occurring, the expectation is that we are not heading into a disorderly break-up of the Eurozone, but rather a managed, albeit painful, resolution of the current crisis. This will depress growth for the next couple of years and will also lower UK growth as the EU is our biggest export market.

5. Investment Counterparty Amendment

- 5.1 As part of the mid year review submitted to Cabinet and Council in December 2012 the investment criteria for investment limits with part nationalised UK banks was increased from £4m to £6m. The reason for this decision was due to cash balances increasing significantly over the past three years with counterparty availability decreasing.
- 5.2 The following chart and table depict the average balances held for each month since April 2010 and highlights the increase in cash balances available for investment.

Average investment balances held April 2010 – Nov 2012:



	2010/11 £m	2011/12 £m	2012/13 £m
April	7.3	9.5	11.5
May	8.3	11.8	14.1
June	9.2	13.2	16.5
July	7.2	14.8	17.8
August	8.5	14.8	19.5
September	10.2	15.6	21.6
October	11.7	15.3	24.5
November	14.5	16.3	26.3
December	14.9	17.1	
January	15.4	18.5	
February	12.4	15.5	
March	7.7	11.5	

5.3 The increase in cash balances held is due to an increase in Housing Revenue Account cash balances due to the difference in interest payable for 2012/13 when compared to the subsidy payable to government in previous years plus grants and contributions received but not yet spent.

5.4 A number of options were put forward to the Cabinet with the officer recommendation being to increase the limits for part nationalised UK institutions from £4m to £6m. The options that were put forward are detailed below:

Option	Advantages	Disadvantages
UK Treasury Bills	<ul style="list-style-type: none"> • Invest with UK government so extremely safe deposit; • Available for periods of 1, 3 or 6 months so would stretch our investment maturity profile away from instant access. 	<ul style="list-style-type: none"> • Bidding process each Friday for Monday transaction, therefore no guarantee of acceptance; • Has been hugely oversubscribed in recent months due to 'flight to quality' from investors; • Interest rates available of around 0.2% for all periods
UK Local Authorities	<ul style="list-style-type: none"> • Safe deposit as investing with UK government • Fixed term deposit would lengthen our maturity profile and reduce interest rate risk 	<ul style="list-style-type: none"> • Low interest rates: range 0.25% for 1 month to 0.50% for 1 year. • Limited market as many authorities in a similar position to Nuneaton and Bedworth and looking to invest rather than borrow. • Market tends to be dictated by the counterparty as any availability is normally for set amounts, on set dates and for set periods.
Open additional Money Market Funds	<ul style="list-style-type: none"> • AAA rated so deemed safer investment; • Instant access to funds 	<ul style="list-style-type: none"> • Interest rates around 0.40% to 0.50% at present and potential to fall (rates have dropped from 0.90% in July 2012 to 0.45% now); • We already hold a significant amount of funds on instant access and are therefore exposed to higher interest rate risk should rates fall further.
Increase limits on part nationalised institutions	<ul style="list-style-type: none"> • Banks (RBS/ Nat West/ Bank of Scotland/ Lloyds TSB) currently being financially supported by UK Government; • Special 'tranches' for fixed term deposits available to local authorities with enhanced interest rates; • Would extent our investment maturity profile and therefore reduce interest rate risk. 	<ul style="list-style-type: none"> • Would increase our exposure to individual counterparty; • Unknown timing of when government backing will be withdrawn (although not in the short term);

6. Treasury Management Portfolio & Activity

6.1 Summary portfolio as at 14th December 2012 (time of writing the report):-

	31-Mar-12		14-Dec-12		31-Mar-13 Forecast Closing Principal £000
	Principal Amount £000	Average Rate	Principal Amount £000	Average Rate	
Investments					
Fixed Rate:					
Fixed Term Deposit (less than 1 year)	4,500	1.79%	11,000	1.31%	4,000
Total Fixed Rate	4,500	1.79%	11,000	1.31%	4,000
Variable Rate Deposits					
Notice Account	0	0.00%	0	0.00%	} 11,600
Instant Access Accounts	3,818	0.84%	5,500	0.90%	
Money Market Funds	1,000	0.83%	9,023	0.39%	
Total Variable Rate	4,818	0.84%	14,523	0.58%	
Total Managed Investments	9,318	1.30%	25,523	0.90%	15,600
Icelandic deposits not yet repaid (estimate based on £3m less cash repayments made)	2,107	-	1,731	-	1,731
Total Investments	11,425		27,254		17,331
Borrowing					
General Fund:					
PWLB	7,750	4.67%	7,750	4.67%	7,750
Market	2,000	4.10%	2,000	4.10%	2,000
Interest Free Loan	400	0.00%	52	0.00%	39
Total General Fund	10,150	4.37%	9,802	4.53%	9,789
Housing Revenue Account:					
PWLB	78,455	2.78%	78,455	2.78%	78,455
Market	0	0.00%	0	0.00%	0
Interest Free Loan	0	0.00%	0	0.00%	0
Total Housing Revenue Account	78,455	2.78%	78,455	2.78%	78,455
Temporary Borrowing	0	0.00%	0	0.00%	0
Total Borrowing	88,605	2.96%	88,257	2.97%	88,244
Net Debt	77,180		61,003		72,644

6.2 Investment balances are expected to fall significantly from now to the end of the financial year due to the timing of cash flows (i.e. no council tax direct debit income in February or March but precept payments to Warwickshire County and Police Authorities are still to be made). The following table summarises the predicted remaining cash flows for this financial year:

	<u>£m</u>	<u>£m</u>
Net debt position 14th December 2012		61.00
Inflows		
• Council Tax/ NDR direct debits	(7.49)	
• Benefits subsidy	(11.99)	
• Other credits	<u>(9.63)</u>	(33.14)
Outflows		
• General creditors and housing benefits	16.12	
• Precept payments	15.88	
• Net payments to CLG re RSG/ NNDR	5.37	
• Other (salaries, direct debits etc)	<u>5.68</u>	43.05
Forecast net debt position 31 st March 2013		72.64

6.3 **Investments** – The Council’s investment priorities are as follows:

- Security of capital
- Liquidity

6.4 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep the majority of investments short term.

6.5 The Council’s investments mostly consist of unspent reserves and balances, 3rd party contributions and unspent capital receipts. The management of the investment portfolio considers the forecast cashflows of the Council to ascertain how much cash will be needed to cover our outgoings and when this will be required.

6.6 A summary of the Council's investment portfolio as at 14th December 2012 is shown below:

<u>Counterparty</u>	<u>Amount Invested</u>	<u>Original Term & Deposit Type</u>	<u>Maturity Date (if applicable)</u>	<u>Interest Rate</u>	<u>Maximum Counterparty Duration at 14 December 2012</u>
Nat West Liquidity	£ 5,500,000	Instant Access	n/a	0.90%	12 mths
Goldman Sachs MMF	£ 2,023,000	Instant Access (MMF)	n/a	0.41%	n/a AAA MMF Account
Prime Rate MMF	£ 6,000,000	Instant Access (MMF)	n/a	0.46%	n/a AAA MMF Account
CCLA MMF	£ 1,000,000	Instant Access (MMF)	n/a	0.39%	n/a AAA MMF Account
Barclays Bank plc	£ 1,000,000	3 mth Fixed Term Deposit	02-Jan-13	0.53%	3 mths
Nationwide BS	£ 2,000,000	3 mth Fixed Term Deposit	03-Jan-13	0.47%	3 mths
Barclays Bank plc	£ 1,000,000	3 mth Fixed Term Deposit	08 Jan 13	0.51%	3 mths
Lloyds TSB Bank plc	£ 1,000,000	1 year Fixed Term Deposit	14-Jan-13	2.50%	12 mths
Nationwide BS	£ 2,000,000	3 mth Fixed Term Deposit	15 Jan 13	0.45%	3 mths
Lloyds TSB Bank plc	£ 1,000,000	1 year Fixed Term Deposit	11-Apr-13	3.00%	12 mths
Lloyds TSB Bank plc	£ 1,000,000	1 year Fixed Term Deposit	04-Jun-13	3.00%	12 mths
Lloyds TSB Bank plc	£ 2,000,000	1 year Fixed Term Deposit	13 Dec 13	1.50%	12 mths
	<u>£ 25,523,000</u>				

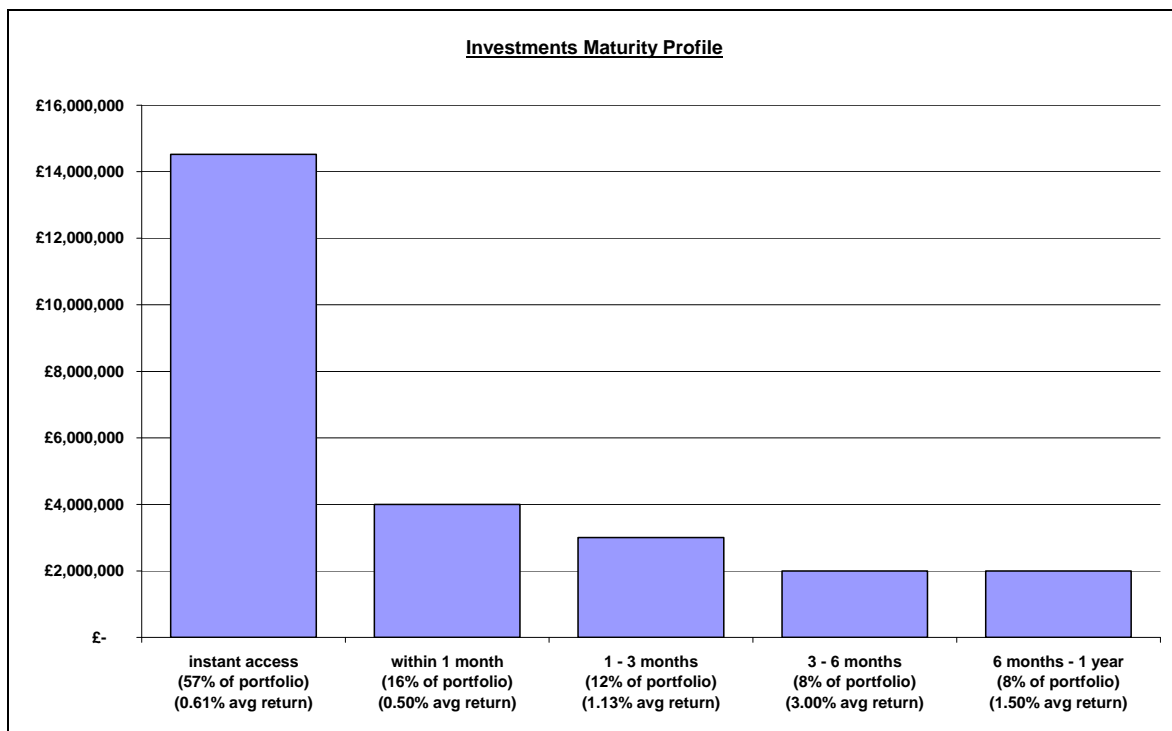
6.7 In the current economic climate and with the heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months (with the exception of the UK part nationalised institutions) until the situation improves.

6.8 The current portfolio is split across the following deposit types and periods:

Portfolio Structure as at 14 Dec 12	Deposit Period				Total Deposits		
	Liquid (Instant Access) Return		Non Liquid (less than 3 mths) Return		Non Liquid (less than 1 year) Return		
MMFs/ Gov't <i>proportion of portfolio</i>	£9.02m (35%)	0.39%	-	-	-	-	£9.02m 0.39% (35%)
Part Nationalised Banks <i>proportion of portfolio</i>	£5.50m (22%)	0.90%	-	-	£5.00m (19%)	2.30%	£10.50m 1.57% (41%)
Other Institutions <i>proportion of portfolio</i>	-	-	£6.00m (24%)	0.48%	-	-	£6.00m 0.48% (24%)
Total <i>proportion of portfolio</i>	£14.52m (57%)	0.59%	£6.00m (24%)	0.48%	£5.00m (19%)	2.30%	£25.52m 0.90% (100%)

6.9 This portfolio split is considered low risk for loss of principal amount invested however the risk level is marginally higher for interest rate risk as just over of the portfolio is liquid and at variable rates. Therefore investment returns are immediately subject to any movements in interest rates. The interest rate risk position has improved slightly since Q2 with £11m of investments locked into fixed rates compared to £8m at 30th September 2012. The current level of interest rate risk is considered reasonable whilst the Eurozone crisis and other market instabilities continue.

6.10 The maturity profile of investments held as at 14th December 2012:



6.11 **Borrowings** – The Council operates a two pool approach with individual loans allocated to either the General Fund or the Housing Revenue Account.

6.12 Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates following increases in PWLB new borrowing rates in October 2010. So far during 2012/13 no debt rescheduling was undertaken.

6.13 The tables below show the current estimated premiums due on PWLB loans should debt be repaid early and the net cost if replacement debt was taken for similar remaining periods. The net cost is calculated taking into account savings in debt interest payable, loss of investment income due to financing the premium due and the annual amortisation of the premium.

General Fund:

Amount	Rate	From	To	Remaining Term (Years)	Premium/ (Discount)	Comparable Loan Rate	Estimated Net Cost/ (Saving) if rescheduled
£1,000,000	5.13%	28 Sep 98	08 Nov 20	7.9	£298,046	2.18%	£13,767
£2,000,000	4.88%	29 Mar 01	16 Mar 26	13.3	£656,107	3.02%	£22,887
£1,750,000	4.75%	19 Nov 02	16 Sep 27	14.8	£557,428	3.18%	£20,835
£2,000,000	4.38%	10 Sep 08	10 Sep 58	45.8	£599,925	4.07%	£18,840
£1,000,000	4.28%	25 May 10	25 May 35	22.5	£245,501	3.75%	£10,284
£7,750,000					£2,357,007		£86,613

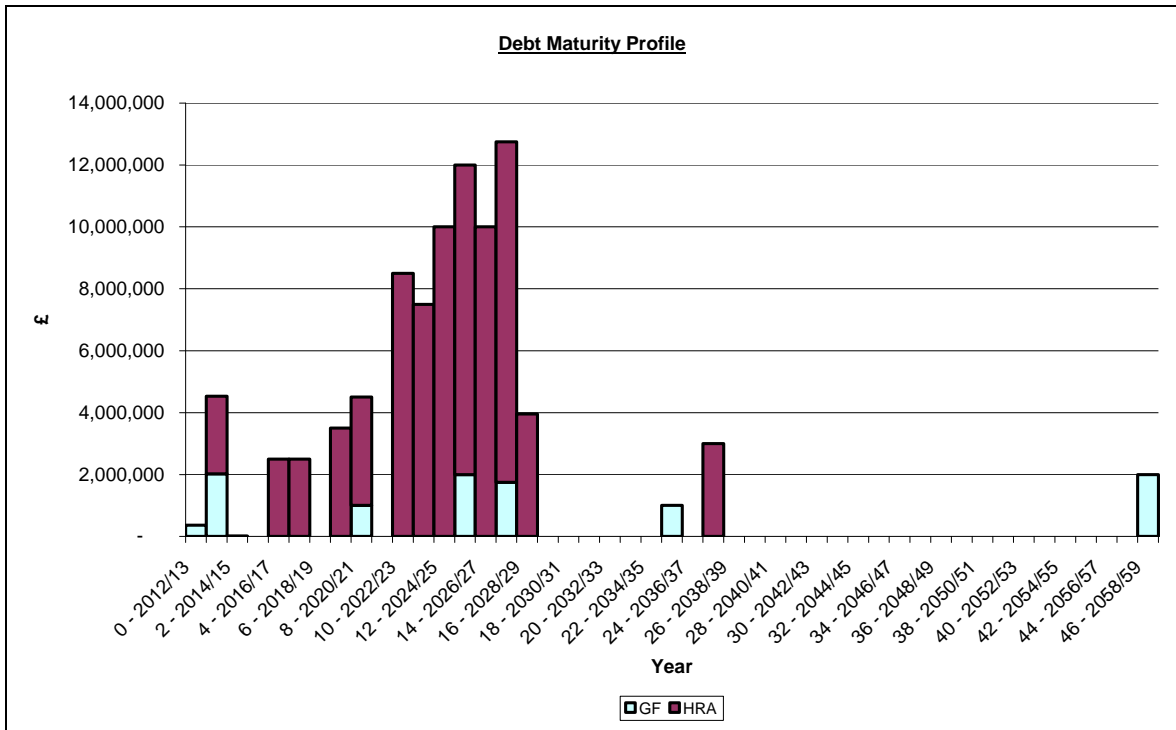
HRA:

Amount	Rate	From	To	Remaining Term (Years)	Premium/ (Discount)	Comparable Loan Rate	Estimated Net Cost/ (Saving) if rescheduled
£1,000,000	5.13%	28 Sep 98	08 Nov 22	9.9	£329,468	2.54%	£13,686
£1,000,000	5.13%	28 Sep 98	08 Nov 19	6.9	£277,134	1.99%	£13,783
£1,000,000	4.75%	22 Aug 02	13 Jul 27	14.6	£315,277	3.18%	£11,624
£3,000,000	4.52%	22 Nov 07	22 Nov 37	25.0	£846,318	3.86%	£30,979
£1,000,000	3.70%	25 May 10	25 May 20	7.5	£188,060	2.09%	£11,169
£2,500,000	3.05%	28 Mar 12	15 Aug 27	14.7	n/a	3.18%	n/a
£2,500,000	2.76%	28 Mar 12	15 Sep 24	11.8	n/a	2.83%	n/a
£2,500,000	2.48%	28 Mar 12	01 Jun 22	9.5	n/a	2.45%	n/a
£2,500,000	2.76%	28 Mar 12	01 Jun 24	11.5	n/a	2.76%	n/a
£2,500,000	2.63%	28 Mar 12	15 May 23	10.4	n/a	2.61%	n/a
£2,500,000	2.97%	28 Mar 12	01 Jun 26	13.5	n/a	3.02%	n/a
£2,500,000	2.48%	28 Mar 12	15 Apr 22	9.4	n/a	2.45%	n/a
£2,500,000	2.48%	28 Mar 12	01 Sep 22	9.7	n/a	2.54%	n/a
£2,500,000	3.05%	28 Mar 12	01 May 27	14.4	n/a	3.13%	n/a
£2,500,000	2.76%	28 Mar 12	15 Aug 24	11.7	n/a	2.83%	n/a
£2,500,000	3.01%	28 Mar 12	15 Dec 26	14.0	n/a	3.13%	n/a
£2,500,000	2.76%	28 Mar 12	01 Sep 24	11.7	n/a	2.83%	n/a
£2,500,000	2.87%	28 Mar 12	01 Aug 25	12.6	n/a	2.96%	n/a
£2,500,000	2.10%	28 Mar 12	01 Aug 20	7.6	n/a	2.18%	n/a
£2,500,000	3.01%	28 Mar 12	15 Feb 27	14.2	n/a	3.13%	n/a
£2,500,000	0.56%	28 Mar 12	15 Dec 13	1.0	n/a	1.02%	n/a
£2,500,000	1.50%	28 Mar 12	15 Jan 18	5.1	n/a	1.68%	n/a
£1,455,000	3.15%	28 Mar 12	01 Feb 29	16.2	n/a	3.33%	n/a
£2,500,000	3.08%	28 Mar 12	15 Mar 28	15.3	n/a	3.23%	n/a
£2,500,000	2.97%	28 Mar 12	01 Sep 26	13.7	n/a	3.07%	n/a
£2,500,000	2.92%	28 Mar 12	15 Mar 26	13.3	n/a	3.02%	n/a
£2,500,000	3.08%	28 Mar 12	01 Dec 27	15.0	n/a	3.18%	n/a
£2,500,000	1.11%	28 Mar 12	01 Sep 16	3.7	n/a	1.38%	n/a
£2,500,000	2.92%	28 Mar 12	15 Jan 26	13.1	n/a	3.02%	n/a
£2,500,000	3.12%	28 Mar 12	01 Sep 28	15.7	n/a	3.28%	n/a
£2,500,000	2.63%	28 Mar 12	15 Sep 23	10.8	n/a	2.69%	n/a
£2,500,000	2.63%	28 Mar 12	15 Aug 23	10.7	n/a	2.69%	n/a
£2,500,000	1.88%	28 Mar 12	01 Jul 19	6.6	n/a	1.99%	n/a
£2,500,000	2.92%	28 Mar 12	15 Oct 25	12.9	n/a	2.96%	n/a
£78,455,000					£1,956,257		£81,241

* Loans that have not been running for 12 months or are within the final 12 months of natural maturity cannot be repaid early and therefore no premium charge has been calculated.

6.14 Other options to reschedule debt are available (e.g. to take debt at short or longer periods). However, to take advantage of savings, the periods of new debt taken would have to be significantly shorter than current periods which would expose the council to high refinancing risk. Therefore, it is not deemed affordable or prudent at the current time to reschedule or repay any existing debt.

6.15 The maturity profile for our debt portfolio is shown in the chart below:



6.16 One of the prudential indicators is to monitor and set limits on our maturity profile of debt to ensure that the Council is not exposed to a refinancing risk over a short period of time. The actual maturity profile and limits can be seen in section 7.1.

6.17 Average Balances & Returns

	2011/12 Full Year		2012/13 to 14 Dec 2012	
	Weighted Average Principal £000	Average Rate	Weighted Average Principal £000	Average Rate
Investments				
Fixed Rate Deposits:				
Fixed Rate less than 1 year	6,242	1.54%	6,634	1.56%
Certificates of Deposit less than 1 year	0	0.00%	713	0.60%
Total Fixed Rate	6,242	1.54%	7,347	1.47%
Variable Rate Deposits				
Instant Access Accounts	3,750	0.85%	3,645	0.89%
Notice Account	1,077	1.20%	0	0.00%
Money Market Funds	3,419	0.72%	7,589	0.58%
Total Variable Rate	8,246	0.84%	11,234	0.68%
Total Managed Investments	14,488	1.14%	18,581	0.99%
Icelandic Deposits not yet repaid	2,893		1,769	
Total Investments	17,381		20,350	
<i>average Bank Rate</i>		0.50%		0.50%
<i>average 3 month LIBID (benchmark)</i>		0.82%		0.64%
Borrowing (All Fixed Rate)				
Long Term				
PWLB	15,533	4.54%	86,205	2.95%
Market	2,000	4.10%	2,000	4.10%
Interest Free Loans	161	0.00%	61	0.00%
Total Long Term	17,694	4.45%	88,266	2.97%
Temporary Borrowing	57	0.43%	0	0.00%
Total Borrowing	17,751	4.44%	88,266	2.97%

Pool Analysis of Long Term Debt:	2012/13	
	Weighted Average Principal £000	Average Rate
General Fund		
PWLB	7,750	4.67%
Market	2,000	4.10%
Interest Free Loans	61	0.00%
Total General Fund	9,811	4.52%
Housing Revenue Account		
PWLB	78,455	2.78%
Market	0	0.00%
Interest Free Loans	0	0.00%
Total Housing Revenue Account	78,455	2.78%

6.18 The average return of 0.99% for investments can be analysed further as shown below:

Type of Investment	Benchmark Return (3 mth LIBID)	Council Return	Weighted Average Balance to 14 Dec 12 £000	Investment Interest £000
Instant Access Accounts		0.89%	3,645	22.92
Money Market Funds		0.58%	7,589	31.02
Fixed Term Deposits (placed during 12/13)		1.28%	6,047	54.63
Subtotal (12/13 activity)	0.64%	0.89%	17,281	108.57
Fixed Term Deposits (b/f from 11/12)		2.32%	1,300	21.36
All Deposits		0.99%	18,581	129.93

The analysis shows that the Treasury team have achieved returns above the benchmark rate for investments placed during the year with performance of 0.89% against a benchmark of 0.64% (Q2: actual of 0.96% against a benchmark of 0.73%). This equates to approximately £31k extra investment income to date.

6.19 With the increased uncertainty in the global economic climate, the Treasury Team have been making use of liquid cash facilities (Money Market Funds and instant access bank accounts) and short dated fixed term deposits to ensure liquidity of funds. Longer term deposits (greater than 3 months) are restricted to the part nationalised UK banks. The table below details the average balances placed in the different institutions and the proportion of the investment portfolio:

Year to Date Summary information up to 14 Dec 12	Deposit Period						Total Deposits	
	Liquid (Instant Access) Return		Non Liquid (less than 3 mths) Return		Non Liquid (less than 1 year) Return		Return	
MMFs/ Gov't <i>proportion of portfolio</i>	£7.59m (41%)	0.58%	£0.24m (1%)	0.30%	-	-	£7.83m (42%)	0.57%
Part Nationalised Banks <i>proportion of portfolio</i>	£3.64m (20%)	0.89%	-	-	£2.90m (15%)	2.75%	£6.54m (35%)	1.72%
Other Institutions <i>proportion of portfolio</i>	-	-	£4.21m (23%)	0.64%	-	-	£4.21m (23%)	0.64%
Total <i>proportion of portfolio</i>	£11.23m (61%)	0.68%	£4.45m (24%)	0.62%	£2.90m (15%)	2.75%	£18.58m (100%)	0.99%

6.20 The figures above highlight that approximately 60% of the portfolio has been kept liquid throughout the first three quarters and just over three quarters has been held in institutions deemed to be low risk (MMFs and Part Nationalised Banks), although no deposits are risk free.

6.21 The Treasury team also have access to a facility to purchase UK Government securities (gilts and treasury bills) should market conditions deteriorate to a position where it is considered risk in the markets is too high although as highlighted earlier, there is also a risk that due to subscriptions for treasury bills being consistently higher than availability, access to these instruments may not always be available. At the present moment risk is being managed by keeping investments short with the exception of the UK part nationalised banks.

6.22 Investment Activity to 14th December 2012:

	Instant Access Accounts £000	MMFs £000	Certificates of Deposit £000	Fixed Term Deposits £000	Total £000
Opening Balances 1st April 2012	3,818	1,000	-	4,500	9,318
Q1-Q2 Movement					
Deposits	9,267	59,091	2,000	7,000	77,358
Withdrawals/ Maturities	(9,227)	(52,009)	-	(5,500)	(66,736)
Balance as at end September 2012	3,858	8,082	2,000	6,000	19,940
Q3 Activity (as at 14th December 2012)					
Deposits	5,760	27,413	-	9,000	42,173
Withdrawals/ Maturities	(4,118)	(26,472)	(2,000)	(4,000)	(36,590)
Closing Investments 14th December 2012	5,500	9,023	-	11,000	25,523
Weighted Average Balances YTD	3,645	7,589	713	6,634	18,581

Fixed Term Deposits & Certificates of Deposits deals Q3					
Counterparty	Amount £000	Rate	Term	Deal Date	Maturity Date
Barclays Bank plc	1,000	0.53%	3 mths	02 Oct 12	02 Jan 13
Nationwide BS	2,000	0.47%	3 mths	02 Oct 12	03 Jan 13
Barclays Bank plc	1,000	0.51%	3 mths	08 Oct 12	08 Jan 13
South Ayrshire Council	1,000	0.30%	3 mths	12 Oct 12	12 Dec 12
Nationwide BS	2,000	0.45%	3 mths	15 Oct 12	15 Jan 13
Lloyds TSB Bank plc	2,000	1.50%	1 year	14 Dec 12	13 Dec 13
	9,000				

	Instant Access Accounts £000	MMFs £000	Certificates of Deposit £000	Fixed Term Deposits £000	Total £000
YTD Summary					
Opening Balances 1st April 2012	3,818	1,000	-	4,500	9,318
Deposits	15,027	86,504	2,000	16,000	119,531
Withdrawals/ Maturities	(13,345)	(78,481)	(2,000)	(9,500)	(103,326)
Closing Investments 14th December 2012	5,500	9,023	-	11,000	25,523

6.23 Where returns have been available in the fixed term deposit market which meet our investment counterparty criteria, more strategic investments have been placed to generate improved returns (e.g. Lloyds 1 year).

6.24 Debt Activity to 14th December 2012:

	Temporary Borrowing £000	Interest Free Loans £000	Market Loans £000	PWLB £000	Total £000
Opening Balances 1st April 2012	-	400	2,000	86,205	88,605
Q1-Q2 Movement					
New Loans	-	-	-	-	-
Repayments	-	(348)	-	-	(348)
Balance as at end September 2012	-	52	2,000	86,205	88,257
nil activity Q3 (as at 14th December 2012)					
Closing Debt 14th December 2012	-	52	2,000	86,205	88,257

YTD Summary	Temporary Borrowing £000	Interest Free Loans £000	Market Loans £000	PWLB £000	Total £000
Opening Balances 1st April 2012	-	400	2,000	86,205	88,605
Deposits	-	-	-	-	-
Withdrawals/ Maturities	-	(348)	-	-	(348)
Closing Debt 14th December 2012	-	52	2,000	86,205	88,257

6.25 **Capital Finance Requirement:** The Council's Capital Financing Requirement (CFR) is the amount of expenditure (historic and current) that has been financed by borrowing, but has still to be charged to revenue through the Minimum Revenue Provision (MRP).

6.26 It is estimated the Council is approximately £6.1m under-borrowed (CFR of £94.4m less actual debt of £88.3m). This implies that the Council has therefore used cash resources normally available for investments to finance this borrowing. Use of cash resources (such as grants, contributions, receipts and balances) is considered a temporary measure and should be maintained at a prudent level. The table below details the under-borrowed position by fund:

	General Fund £000	Housing Revenue Account £000	Total (Excluding Temporary) £000
Debt Holdings as at 14 Dec 12	9,802	78,455	88,257
Estimated CFR	14,310	80,060	94,370
(Under) / Over Borrowing Position	(4,508)	(1,605)	(6,113)

6.27 Even though current borrowing rates remain at an unprecedented low level, it is proposed that we remain in an under-borrowed position until such time that the economic situation improves. However, debt rates will continue to be monitored to ensure that we do not expose the Council to excessively high debt interest rates in the future.

6.28 Estimated Revenue Outturn 2012/13.

The table below shows the position for 2012/13 for investment income, interest payable and MRP against the approved budget:

	Predicted Outturn £000	Full Year Budget £000	Predicted Variance £000	Estimated Variance as reported Q2 £000
General Fund				
Investments	(159)	(113)	(46)	(37)
Debt	444	444	-	-
Subtotal	285	331	(46)	(37)
MRP	550	576	(26)	(26)
Total	835	907	(72)	(63)
Housing Revenue Account				
Investments	(33)	(21)	(12)	(7)
Debt	2,181	2,531	(350)	(350)
Subtotal	2,148	2,510	(362)	(357)
MRP	-	-	-	-
Total	2,148	2,510	(362)	(357)
Authority Total				
Investments	(192)	(134)	(58)	(44)
Debt	2,625	2,975	(350)	(350)
Subtotal	2,433	2,841	(408)	(394)
MRP	550	576	(26)	(26)
Total	2,983	3,417	(434)	(420)

6.29 The variance on investment income can be attributed to higher than anticipated cash flow balances, taking advantage of Lloyds special 1 year rates and Landsbanki deposits starting to be repaid thereby providing additional resources for generating investment income.

6.30 The saving on HRA debt interest is due to the budget for the year being set on estimated debt requirement levels and rates prior to the finalisation of the HRA Self Financing Settlement. Actual interest rates for the settlement were lower than forecast and budgeted.

7. Prudential/ Treasury Indicators

7.1 A summary of the prudential & treasury indicators as at 14th December 2012 are detailed in the following table:

	2012/13 Approved Indicator		2012/13 Position as at 14 th Dec' 2012			
	GF	HRA	GF	HRA	NBBC	
Capital Financing Requirement	£14.31m	£80.06m	£14.24m	£80.06m		☺
	Total	£94.37m	Total	£94.30m		
Authorised Limit for External Borrowing	£108.20m		Maximum position: £88.61m			☺
Operational Boundary for External Borrowing	£88.70m					☺
Limit of fixed interest rates based on net debt (<i>debt less investments</i>)	£95.00m		Range £76.61m to £86.61m			☺
Limit of variable interest rates based on net debt (<i>debt less investments</i>)	£20.00m		Range (£16.54m) to (£4.82m)			☺
Principal sums invested > 364 days (at inception)	£2.00m		£0.00m			☺
Maturity Structure of Borrowing (<i>maximum principal due to mature in period</i>):			GF	HRA	NBBC	
Under 12 months	20%		21%	0%	2%	☺
12 months – 2 years	20%		0%	3%	3%	☺
2 years – 5 years	30%		0%	3%	3%	☺
5 years – 10 years	50%		10%	23%	22%	☺
10 years and above	100%		69%	71%	70%	☺

8. Local Authority Mortgage Scheme

- 8.1 The Council has entered into an agreement with Lloyds Bank plc to act as guarantor for first time buyer mortgage (Cabinet 21st September 2011). The Local Authority Mortgage Scheme (LAMS) has given first time buyers, looking to purchase a house within the borough, access to Lloyds mortgages with lower deposit requirements and better interest rates making the move onto the property ladder more affordable.
- 8.2 Although the Council has placed a £1m deposit with Lloyds bank as the maximum indemnity amount, which will earn an investment return, the principal amount and investment interest is excluded from the figures detailed within this report as, in accordance with accounting regulations, it is classed as capital expenditure and not a treasury management investment.

9. Icelandic Deposits Update

- 9.1 Repayments are now being made on the £3m deposits locked in the collapsed bank Landsbanki. No further repayments have been made since the last report. Amounts and dates of the repayments are detailed in the table below:

Date of Repayment	Amount received £000
17 Feb 2012	893.5
29 May 2012	375.4
9 Oct 2012	177.6
Total to Date	1,446.5

- 9.2 The amount and timing of future repayments is unknown at present although our appointed solicitors are continuing to work with the Winding-up Board to ensure that repayments can be made at the earliest opportunities.

10. Conclusion

- 10.1 The Treasury Management team, with the assistance of Sector, will continue to monitor investment counterparty creditworthiness and manage the debt and investment portfolio with the first priority being preservation of principal before returns are considered.

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Appendix A

Glossary of Treasury Management Terminology

<u>Term</u>	<u>Description</u>
Authorised Limit for External Debt	Legal maximum external borrowing that this council is allowed to incur. This amount of debt, whilst unaffordable in the long term, is set to allow for events that deem the need for short term borrowing to maintain the day to day financing of Council activities.
Capital Financing Requirement (CFR)	The amount of capital expenditure (historic and current) that has been financed by borrowing and has yet to be charged to revenue through the Minimum Revenue Provision (MRP)
Certificate of Deposit	A fixed rate deposit instrument for a defined period that can be traded on a secondary market before maturity.
Counterparty	External institution for placing investments.
Credit Default Swap (CDS)	“Insurance premium” to insure against risk of default. If price is high then markets consider the institution a higher risk.
Fixed Term Deposit	Investment placed with an institution for a specified time period. No withdrawals are allowed before the specified contract end date.
Liquid Cash	Amounts of cash invested that can be withdrawn with no notice period.
London Inter-bank Bid Rates (LIBID Rates)	The rates of interest payable in transactions between participating banks in the London markets.
Long Term Debt/ Investments	Transaction is for periods of greater than 364 days
Minimum Revenue Provision (MRP)	An amount charged to revenue (Council Tax/ Rents) and set aside for the future repayment of the principle amount of debt.
Money Market Fund (MMF)	An investment product of high creditworthiness where deposits placed are pooled with other depositors to allow the MMF to diversify their investments across a large number of institutions.

<u>Term</u>	<u>Description</u>
Operational Boundary for External Debt	The expected level of external borrowings for the financial year.
Public Works Loans Board (PWLB)	A branch of the Government Debt Management Office which issues debt to local authorities.
Short Term Debt/ Investments	Transaction is for a term of 364 days or less