

Enquiries to:
Jackie Essex

Direct Dial: 024 7637 6165

Direct Email:
jackie.essex@nuneatonandbedworth.gov.uk

Date: 3rd November 2014

Dear Sir/Madam,

A meeting of the **AUDIT COMMITTEE** will be held in Committee Room A,
Town Hall, Nuneaton on Tuesday, 11th November, 2014, 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, R.G. Copland, D. Fowler,
K.A. Kondakor, G.D. Pomfrett, R.A. Taylor,
Mrs C. Bacon and Mrs L. Nelson)

AGENDA

PART I - 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 held on 9th September, 2014. **(Page 4)**
4. DECLARATIONS OF INTEREST - To receive declarations of personal/prejudicial 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 prejudicial interest the member must withdraw from the room unless dispensation has been given by the Standards Committee.
5. PUBLIC CONSULTATION - **Members of the public will be given the opportunity to speak on specific agenda items, if notice has been received.**
6. THE ANNUAL AUDIT LETTER FOR NUNEATON AND BEDWORTH BOROUGH COUNCIL – Report by Grant Thornton attached. **(Page 6)**
7. INTERNAL AUDIT HALF YEARLY REPORT 2014/15 – Report of the Audit and Governance Manager attached. **(Page 13)**
8. REVIEW OF THE AUDIT COMMITTEE - Report of the Audit and Governance Manager attached. **(Page 23)**
9. TREASURY MANAGEMENT MONITORING Q2 2014/15 – Report of the Treasury and Technical Manager attached. **(Page 35)**

10. ANY OTHER ITEMS - which in the opinion of the Chair should be discussed as a matter of urgency because of special circumstances (which must be specified).

PART II – EXEMPT ITEMS

11. EXCLUSION OF THE PUBLIC AND PRESS

RECOMMENDED that under section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting during consideration of the following items, it being likely that there would be disclosure of exempt information of the description specified in paragraphs 7 of Part I of Schedule 12A to the Act.

12. DUPLICATE PAYMENTS Report of the Audit and Governance Manager attached. **(Page 55)**

NUNEATON AND BEDWORTH BOROUGH COUNCIL

AUDIT COMMITTEE

9th September, 2014

A meeting of the Audit Committee was held at the Town Hall, Nuneaton on Tuesday 9th September, 2014.

Present

Councillor J. Haynes - Chair

Councillors J.B. Beaumont, R.G. Copland, D. Fowler, K. A. Kondakor, G.D. Pomfrett, R.A. Taylor, Mrs C. Bacon and Mrs L. Nelson.

AUD11 **Courtesies**

The Chair welcomed Mr John Gregory and Miss Helen Edmonds, of Grant Thornton to the meeting.

AUD12 **Minutes**

RESOLVED that the minutes of the meeting held on the 8th July, 2014 be confirmed.

AUD13 **Declarations of Interest**

Councillor J. B. Beaumont declared an Other Interest by reason of him being a Member of Warwickshire County Council.

Councillor K.A. Kondakor declared an Other Interest by reason of him being a Member of Warwickshire County Council.

AUD14 **Audit Findings for Nuneaton and Bedworth Borough Council**

Mr John Gregory and Miss Helen Edmonds presented the Audit Findings for Nuneaton and Bedworth Borough Council for the year ended 31st March 2014.

RESOLVED that

(a). the Audit Findings be noted and that the Letter of Representation be signed by the Director – Finance and Procurement and Chair of the Panel, Councillor John Haynes once the Statement of Accounts accounts have been approved by Council;

(b). audit training be arranged for Councillor R.G. Copland;

(c). thanks be passed to the Auditors for the work they have carried out for this Council in completing the Audit Findings;

(d). thanks be passed to Officers for their work in presenting the Audit Findings.

AUD15 **Statement of Accounts 2013/14**

The Director – Finance and Procurement submitted the 2013/14 Statement of Accounts to the panel and asked that they be recommended to the Council for approval.

RESOLVED that

(a). the Statement of Accounts 2013/14 be recommended to Council for Approval;

(b). thanks be passed to Officers for their work in submitting the accounts.

Chair

The Annual Audit Letter for Nuneaton and Bedworth Borough Council

Year ended 31 March 2014

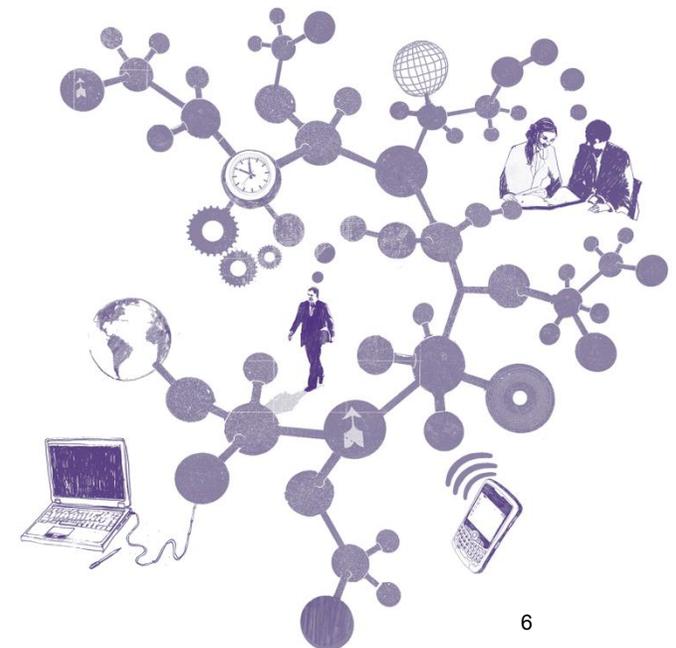
October 2014

John Gregory

Director
T 0121 232 5333
E john.gregory@uk.gt.com

Helen Edmonds

Manager
T 0121 232 5392
E helen.edmonds@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Summary of reports and audit fees	5

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Nuneaton and Bedworth Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 18 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 9 September 2014 to the Audit Committee. The issues we raised in the report were not significant and the only changes made to the accounts as a result of our audit were minor presentational issues.</p> <p>We issued an unqualified opinion on the Council's 2013/14 financial statements 25 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2013/14 on 25 September 2014.</p> <p>In our Audit findings Report, we commented on the good understanding which officers and members have of the financial challenges facing the Council in future years and the emphasis on long term solutions rather than just focusing on 'quick wins'.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts	We were not required to fully review the consolidation pack which the Council prepared to support the production of Whole of Government Accounts because the Council's turnover and assets/liabilities are below the £350m threshold. We did not find any anomalies in the limited testing that we were required to do.
Certification of grant claims and returns	We have certified the Pooling of Capital Receipts return without qualification, and are currently undertaking work for the certification of the Housing Benefit grant claim which will be certified in accordance with the deadline for submission to the DWP at the end of November.
Audit fee	Our fee for 2013/14 was £77,844, excluding VAT, but including an additional £900 in relation to extra work required on business rate appeals which was not included in the audit plan Further detail is included within appendix A.

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	70,244	71,144
Grant certification fee	7,600	TBC
Total fees	77,844	TBC

There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NNDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for district councils. We will bill this once formal agreement from the Audit Commission has been received.

Fees for other services

Service	Fees £
None	Nil

Appendix A: Reports issued and fees

Reports issued

Report	Date issued
Audit Plan	18 March 2014
Audit Findings Report	9 September 2014
Certification plan	8 July 2014
Annual Audit Letter	28 October 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit Committee – 11th November 2014

From: Audit and Governance Manager

Subject: Internal Audit Half Yearly Report 2014/15

1. Purpose of the Report

- 1.1 The purpose of this report is to provide an overview of the work carried out by the Internal Audit Section during the first half of 2014-15 and progress against the Plan

2. Recommendation

- 2.1 That the performance of the Internal Audit section as set out in this report, progress against the Audit Plan at Appendix A and the key findings in Appendix B be noted.

3. What is the Committee being asked to consider?

- 3.1 i) Management of the Audit Plan to date;
ii) Performance of the Internal Audit section
iii) Any issues or questions arising from the summary of audit findings and any specific audits where the Committee would like a follow-up report from managers.

4. Progress against the Internal Audit Plan and Key Findings

- 4.1 The Internal Audit Plan for the current year was approved by the Audit Committee in March 2014. A copy of the Plan and progress to date is attached at Appendix A.
- 4.2 So far this year four audit reviews brought forward from 2013-14 and six from the current years plan have been fully completed and six are in progress. In addition, three follow-up reviews have been completed.
- 4.3 A summary of the findings is at Appendix B but it should be noted that these are only a snapshot of the position at the time of the audit so they may not reflect the current arrangements.
- 4.4 A follow up review is completed six to twelve months after the completion of an audit to ensure that the agreed recommendations have been appropriately actioned. Of the twenty four recommendations checked so far this year, three remained outstanding and ten are in the process of being implemented.

5. Conclusion

- 5.1 The low level of resource within the Audit Team makes it increasingly challenging to complete sufficient work to be able to give an opinion on the overall control environment. However, a risk based approach to determine the audit scope for each review has made the best use of the time available. Therefore, at this point in time, I am confident that the Plan is achievable.

LINDA DOWNES

Internal Audit Plan 2014-15

Audit	Current Position
Building Control Partnership	
CCTV	
Community Centres	Completed see Appendix B
Corporate Governance	
Data Protection	
Emergency Planning and BCP	
Environmental Protection – Pollution Control	Audit in Progress
Grants and Funding	
Grants to Voluntary Bodies	Completed see Appendix B
Home Improvement Agency (inc Home Safety Scheme)	
Housing Lettings	
Housing Renewal and Financial Assistance (e.g. DFG)	
Land Charges	Completed see Appendix B
Markets	
Museum	
Personnel	
Planning – Street Naming	Completed see Appendix B
Sheltered Housing Comfort Funds	Audit in Progress
Town Centre Management	
Training	Audit in Progress

<p><u>Annual Audits</u></p> <ul style="list-style-type: none"> - Data Quality - - Procurement - Transforms - Risk Management - Quality Assurance Checks <ul style="list-style-type: none"> - Transport - Parks - Housing 	<p>Completed see Appendix B</p> <p>Audit in Progress</p> <p>Audit in Progress</p> <p>Audit in Progress</p> <p>Completed see Appendix B</p>
<ul style="list-style-type: none"> - Housing Benefit - General Ledger 	<p>These will be completed during the final quarter of the financial year</p>
<p>Follow up Reviews</p> <ul style="list-style-type: none"> ▪ Affordable Housing Development Programme ▪ Asset Management ▪ Postage ▪ Cemeteries ▪ Civic Silver and Security ▪ Local Council Tax Support ▪ Debtors ▪ Equality ▪ Events and Publicity ▪ Absence Management ▪ Health and Safety ▪ Health Improvement Schemes ▪ Housing Repairs ▪ Rental Income ▪ Street Numbering ▪ Supporting People Grant ▪ Trade Waste 	<p>Completed see Appendix B</p> <p>Completed see Appendix B</p> <p>Completed see Appendix B</p>

Summary of Internal Audit Findings

Reviews Brought Forward 2013/14 Plan

Council Tax

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- a formal review of disability discounts, disregards and exemptions has not been undertaken for sometime so there is a possibility that some accounts may now not qualify for assistance; and
- there have been occasions where BACS and cheque schedules have been countersigned by officers who do not have the delegated powers to approve them.

Health and Safety

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- AssessNET is the electronic system used to manage health and safety risks but some risk assessments are not recorded on the system;
- Approximately 14% (43) risk assessments on AssessNET have not been reviewed within the last 13 months;
- Quality checks on risk assessments are not carried out;
- Some accident and violent incident reporting forms were not signed by all relevant parties and some are not sent to the health and safety team on a timely basis;
- Monthly/Quarterly workplace inspections are not completed as frequently as they should be in some areas; and
- Some high risk issues identified during the quarterly workplace inspections were not actioned within a reasonable timescale.

Non Domestic Rates

Our overall audit opinion is '**Significant Assurance**' as the only issue arising was that some BACS and cheque schedules had been countersigned by officers who did not have the delegated powers to approve them.

Overtime Claims

Our audit opinion is '**Limited Assurance**' The main findings and issues arising are as follows:-

- Of the 18 claims reviewed, 6 of the timesheets supporting the claim could not be found so it was not possible to verify the amount paid, 6 claims were overpaid and 1 slightly underpaid;

- The guidance for calculating leave entitlement for part-time staff is now out of date;
- The leave entitlement for the Civic Hall's part-time employees has not been correctly calculated, resulting in them having too much leave; and
- The default claim rate on TransForms is currently set at time and a half, which is one of the reasons why claims are being overpaid.

2014/15 Audit Plan

Community Centres

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- A review was completed by an Internal Improvement Board in 2010 and recommendations were made to improve the operational arrangements and costs effectiveness of the three Community Centres but this has not been presented to the Management Team and no changes have been made;
- The £5,140 grant awarded to Stockingford Community Centre has not been formally approved since the Economic Overview & Scrutiny Panel agreed it on 28/07/2010;
- The Management Committee's accounts and balances were not taken into consideration when the grant was approved;
- Cash income at the Newtown Centre is not being banked on a regular basis;
- Some regular users are being allowed to use the Centres when they have no Public Liability Insurance;
- Lack of transparency/consistency in applying discounts to the hire fee; and
- In 2013 £32,000 of s106 monies was made available to improve the community facilities in Keresley and the general consensus of the community user groups was that a new kitchen was needed in the Community Centre. The user groups, without any input from the Council, then obtained 3 quotations without having a detailed specification of what was actually needed so the quotations received were not comparable. The Council was then asked to put together a specification but this was based on the most expensive quotation rather than an assessment of what was actually needed so they cannot demonstrate value for money.

Data Quality

Our overall audit opinion is '**Limited Assurance**'. The main findings and issues arising are as follows:-

- The number of indicators reported and published on the TEN performance system is excessive leading to errors in the calculations because of the time taken to monitor performance;
- Data quality issues have been highlighted with the contractor monitoring sickness absence during 2013/14 because they were not accounting for the work patterns of part time staff, which resulted in manual adjustments having to be made at year end;
- The target set for dealing with land search applications is not realistic and challenging given historical performance;
- Discrepancies were identified between the number of complaints reported by Housing and the number recorded by IT&C from the Customer Feedback system. Performance management comments stating why the service was underperforming were not published with the data during 2013/14;
- The published information for council house sales did not correspond with the supporting data and there were no comments as to why the service was underperforming;
- This indicator showing satisfaction with Council promoted shows at the Civic Hall is measured by default, i.e. satisfaction is assumed if no complaints are received. It was agreed that a revised methodology for measuring this information be pursued.
- The satisfaction with grounds maintenance results are being reported cumulative year on year since the indicator was introduced in September 2010/11; not cumulative relevant to the current year. There is therefore no trend data to compare performance against and it is difficult to gauge true satisfaction levels as there is little variation of results each month because the sample has grown so large since September 2011;
- A software problem was identified which has caused the time taken to process a change of address on a benefit claim to be overstated; and
- The indicator, average time to re-let a property, is misleading because it actually measures the time from vacating the property to completion of repair work by the Voids Section.

Grants to Voluntary Bodies

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- The performance of the organisations in receipt of a grant is being monitored against agreed targets on a regular basis and reports are taken to the Economic Overview and Scrutiny Committee. However, the systems used by each organisation and the quality of the data used to collate the performance statistics have not been verified by the Council as being fit for purpose so they may be inaccurate;
- Financial statements, required to be submitted to the Council under the terms and conditions of the grant are being submitted on a timely basis and there is no reminder system in place

- The 2012/13 Financial Statements for Stockingford Community Centre show a cash balance in excess of £23,000 but this has not been taken into account when the annual grant is awarded (the 2013/14 accounts were not available at the time of the audit as they were with the accountants);
- The agreement with the Hartshill & Nuneaton Joint Recreation Committee is that the Council will pay 50% towards the cost of maintaining the grounds up to a maximum figure based on the 2008/09 grant updated annually by the relevant RPI. On the basis of this, our calculation show that for 2013/14 the Council overpaid the Committee at least £137, it could have been more as no checks were made on the actual maintenance costs; and;
- The Hartshill Recreation Ground agreement provides for annual adjustments in line with the Retail Price Index (RPI) where Consumer Price Index (CPI) is now the current applicator.

Housing Asbestos Reporting (Quality Assurance Work)

This review covered the planned, reactive and void property repair teams and the capital project surveyors. The main findings and issues arising are as follows:

- Not all of the operatives were fully aware of the process for reporting an incident;
- The employees receiving reports felt that they would benefit from having a script in front of them to ensure that they obtained all of the information required;
- Directors are not being advised of all HSE reportable incidents at the earliest opportunity;
- There is no formal protocol in place for notifying the HSE covering who, when and what information;
- The surveyors did not have all contact numbers to hand; and
- The protocol for dealing with repairs to textured ceilings and walls needs to be clarified.

Land Charges

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- The cost recovery scheme used to calculate charges was introduced in 2009 and it has not been updated to reflect the legislative changes introduced with the Land Charges (Amendment) Rules 2010 so the fees being charged may not be in accordance with the regulations;
- The cost recovery scheme is not published on the Council's website and the information that is provided is very limited;
- The application processing procedural guidelines have not been updated for sometime and are now out of date;

- The current fee structure does not incentivise the use of the electronic search facility as there is very little or no differential between the fees charged for electronic and written applications;
- The Council has not published an annual statement of total cost, income and number of requests processed, as required by the legislation introduced in 2010;
- There is no system in place within some service units for ensuring that charges are registered and removed when the entry has expired; and
- The system used by some service units to request charges to be registered is long winded and inefficient.

Street Naming

Our overall audit opinion is '**Satisfactory Assurance**'. The main findings and issues arising are as follows:-

- The Council is not permitted to charge for the service of street naming and numbering as this is a statutory provision, however it may charge for some elements known as discretionary services by virtue of Section 64 & 65 of the 1847 Towns Improvement Clauses Act coupled with Section 93 of the Local Government Act 2003. This is not reflected in the Council's policy;
- Point 9 of the policy states that 14 external bodies, including Warwickshire Fire & Rescue Service, the Superintendent of Police and the Ambulance Service would be notified of new street names and numbers. However, they were not on the distribution list; and
- Paper correspondence is filed away but the system used makes it difficult and time consuming to recover the documents at a later date.

Assurance Level	Definition
Significant	There is a sound system of internal controls that are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system and/or the level of non-compliance puts some of the systems objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

Follow-up Reviews in relation to the 2013/14 audits

Number of follow up audits completed	3
Total number of recommendations checked	24
Number of recommendations implemented	10
Number of recommendations in progress	10
Number of recommendations no longer appropriate	1
Number of recommendations outstanding	3
Number outstanding that were of a 'High Priority 1'	0

Outstanding Recommendations

Equality

The Equality Act 2010 requires the Council to ensure that all external organisations that provide services on behalf of the Council have adequate equality policies in place. The procurement process includes a check of equality policies and procedures but there is little monitoring afterwards to ensure a continued commitment to uphold equality in the delivery of their services. (Priority 2)

Minor changes to the procurement forms are still outstanding as they still refer to equality opportunities rather than equalities. (Priority 4)

A Manager's Guide to the Equality Act 2010 and Public Sector Equality Duty was drafted some time ago to ensure compliance with the legislative requirements. However, the document has not been finalised and issued. (Priority 3)

Priority	Definition
1	Priority 1: Fundamental weakness in the design of controls or consistent non-compliance with controls that could lead to a significant loss or damage to the Authority's assets, information or reputation.
2	Priority 2: Weakness in the design of controls or inconsistency in compliance with controls that could cause limited loss of assets or information or adverse publicity or embarrassment.
3	Priority 3: Minor weakness in the design of controls or inconsistency in compliance with controls that could result in inefficiencies
4	Priority 4: Recommended best practice only.

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Audit Committee – 11th November 2014

From: Audit and Governance Manager

Subject: Review of the Audit Committee

1. Purpose of the Report

- 1.1 The purpose of this report is to present the findings of a review of the Audit Committee against the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on best practice.

2. Recommendations

- 2.1 That the outcome of the review as set out at Appendix A to this report and the action plan in section 5 below be agreed.
- 2.2 That an annual assessment is completed which will support the Committee's core work programme and training plans and inform the Council's Annual Governance Statement.

3. What is the Committee being asked to consider?

- 3.1 i) The content of the review and the findings as stated in Appendix A;
ii) The viability of the actions as set out in the action plan at section 5;
iii) The frequency of future assessments.

4. Background

- 4.1 At the Audit Committee meeting held on the 8th July 2014 the Core Work Programme was presented alongside the Committee's terms of reference. A point raised by members was that the terms of reference contained a requirement to review the Audit Committee own performance, constitution and terms of reference to ensure that it was operating effectively.
- 4.2 It was therefore resolved that the Audit and Governance Manager should carry out a self assessment of the effectiveness of the Audit Committee with Councillor Haynes and the results would be brought back to a future meeting.

5. Findings

- 5.1 A self assessment has been completed using good practice questions included in a 2013 CIPFA publication 'Audit Committees – practical guidance for local authorities and police. The guidance states that where an audit committee has a high degree of performance against the good practice principles then it is an indication that the committee is soundly based and

has in place a knowledgeable membership. It also states that these are the essential factors in developing an effective audit committee.

- 5.2 The detailed findings are at Appendix A to this report. Some areas for improvement have been identified and these are shown in bold italics against each question. They have also been summarised in the table below.

Proposed Action	Responsible Person	Target Date
Audit Committee terms of reference to be updated and the review will consider the need for a regular report to Full Council on the Committee's performance against the terms of reference, which is considered to be best practice in the CIPFA guide. The core work programme will also be updated as appropriate to reflect any changes in the terms of reference	Audit and Governance Manager in consultation Audit Committee Members	January 2015
Awareness training on the role and purpose of the Audit Committee will be made available for all Elected Members.	Director Governance and Recreation and Audit and Governance Manager	April/May 2015
The Strategic Risk Register is to be reported to Audit Committee in the future, it is recommended that this be provided in June and November along with the Audit and Governance Manager's half-yearly and annual report to consider the impact of any internal audit findings on the register; and in March alongside the Internal Audit Plan.	Audit and Governance Manager	March 2015 – 1 st report
The Local Corporate Governance Code to be updated and approved by the Audit Committee.	Audit and Governance Manager	March 2015
An assessment against the knowledge and skills framework to be completed for all Audit Committee members and any appropriate training made available	Audit and Governance Manager in consultation with Audit Committee Members	January 2015
Consideration be given as to how the Audit Committee can determine and demonstrate that it adds value to the authority	Audit and Governance Manager in consultation with Audit Committee Members	January 2015

LINDA DOWNES

Nuneaton and Bedworth Borough Council Audit Committee

Self Assessment of Good Practice – September/October 2014

Good Practice Questions	Yes	Partly	No	Comments
Audit Committee purpose and governance				
1. Does the authority have a dedicated audit committee?	√			Comprises 7 elected members and 2 independent members and has a quorum of 3 elected members Subject to compliance with political balance rules, the Chair and elected members are appointed for a term of two years. Independent members are appointed for four years , which can be extended for a further period of four years
2. Does the audit committee report directly to full council?	√			As and when required. For example, : <ul style="list-style-type: none"> • Recommend to Full Council that the Financial Statements are approved • Recommend to Full Council that the Constitution be updated to reflect approved changes in documents and strategies such as the Contract Procedure Rules, Financial Procedure Rules and Anti Fraud, Corruption and Bribery Strategy
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's position statement?		√		The terms of reference state that the Committee is responsible for overseeing the work of internal and external audit and in doing so it makes an important contribution to ensuring that effective assurance arrangements are in place but there is no specific mention of the purpose as set out in the position statement. <i>Terms of reference to be updated</i>

Good Practice Questions	Yes	Partly	No	Comments
4. Is the role and purpose of the audit committee understood and accepted across the authority?		√		<p>Those Elected Members who have sat on the Audit Committee are fully aware of the role and purpose of that Committee as do the two Independent Members. However, the role and purpose is little understood by other Members and the only reports that go to Full Council are those relating to the financial statements and changes to the Constitution.</p> <p><i>Awareness training on the role and purpose of the Audit Committee for all Elected Members. Also, the CIPFA suggested terms of reference states that Audit Committee should report to full Council on a regular basis on its performance in relation to the terms of reference; including this requirement will be considered as part of the review of the current terms of reference.</i></p>
5. Does the audit committee provide support to the authority in meeting the requirements of good governance?	√			<p>The Committee approve the Council's Annual Governance Statement and approves governance related policies recommending to Full Council that they then be incorporated into the Council's Constitution</p>

Good Practice Questions	Yes	Partly	No	Comments
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?		√		<p>There are no specific arrangements to hold the committee to account. A review of the Committee was carried out in 2010 and membership was changed to improve its effectiveness, an external review of the internal audit service against the Public Sector Internal Audit Standards (PSIAS) was carried out in 2012/13 and the report stated that there is evidence that Members engage with Officers to pursue matters raised in reports and the Committee has commissioned a number of assignments to obtain additional assurance about issues raised in reports or concerns that Members identified independently. However, it was also suggested that Members are more comfortable dealing with issues of detail rather than with strategic issues such as the relationship between the Strategic Risk Register and the assurance offered by the Internal Audit Plan, which is an issue of significance as the PSIAS require the Audit Committee and the Chair of the Committee to adopt a more active and strategic role. The external auditors have also reviewed the effectiveness of the Committee in relation to its review of the financial statements and some training has been provided.</p> <p><i>The Strategic Risk Register is to be reported to Audit Committee in the future, it is recommended that this be provided in June and November along with the Audit and Governance Manager's half-yearly and annual report to consider the impact of any internal audit findings on the register; and in March alongside the Internal Audit Plan.</i></p> <p><i>As part of the review of the Committee's terms of reference consideration will be given to including the need for a regular report to Full Council on the Committee's performance against the terms of reference.</i></p>

Good Practice Questions	Yes	Partly	No	Comments
Functions of the Committee				
<p>7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <ul style="list-style-type: none"> • Good governance • Assurance framework • Internal audit • External audit • Financial reporting • Risk management • Value for money or best value • Counter fraud and corruption 	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>		√	<p>Not all of the core areas are specifically mentioned, although there is reference to levels of assurance, overseeing the work of internal and external audit and consideration of the Annual Governance Statement.</p> <p>There is no mention of value for money or best value.</p> <p><i>The terms of reference for the Committee to be updated.</i></p> <p><i>The Local Corporate Governance Code to be updated and approved by the Audit Committee.</i></p> <p><i>The Strategic Risk Register to be reported to the Audit Committee for comment.</i></p>
<p>8. Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>	√			<p>The Audit Committee core work programme is reported to Committee on a regular basis and is always considered alongside the terms of reference. The latest reports were on 25th June 2013, 18th March 2014 and 8th July 2014.</p>

Good Practice Questions	Yes	Partly	No	Comments
9. Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate to undertake them?	√			<p>The possible wider functions as set out in the position statement are to:</p> <ul style="list-style-type: none"> • Consider governance risk or control matters at the request of other committees or officers, such as a review of a service or a proposed policy • Work with local standards committees to support ethical values and review the arrangements to achieve those values; • Review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice <p>At NBBC corporate governance related policies and procedures are already approved by the Audit Committee and they are being included, with the approval of Full Council, in the Constitution. The Audit Committee also has specific responsibility for monitoring treasury management activities and for maintaining the confidential reporting code, which supports the development of ethical conduct and greater transparency.</p>
10. Where coverage of core areas has been found to be limited, are plans in place to address this?	√			<p>See comments at Q7 above</p> <p><i>Terms of reference and core work programme to be updated as appropriate</i></p>
11. Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	√			<p>The Council's Constitution clearly states that 'no member of Cabinet or a Chair or Vice Chair of an Overview and Scrutiny Panel shall sit on Audit Committee'. This was introduced following a review of the effectiveness of the Audit Committee – see Q12 below.</p>

Good Practice Questions	Yes	Partly	No	Comments
Membership and support				
<p>12. Has an effective audit committee structure and composition of the committee been selected? This should include:-</p> <ul style="list-style-type: none"> • Separation from the executive • An appropriate mix of knowledge and skills among the membership • A size of committee that is not unwieldy • Where independent members are used, that they have been appointed using an appropriate process 		√		<p><u>Committee Structure</u> A review of the effectiveness of the Audit Committee was completed in 2009 and the results were reported back to the Audit Committee on the 28th January 2010. The main area for improvement was the membership of the Committee. The Deputy Mayor and members of the Cabinet and Scrutiny Panels and the Chair of the Economic Scrutiny Panel were all members of the Audit Committee. The Committee only had a membership of five with a quorum of three and there had been occasions when the Committee had only just reached the quorum. Also, the overall membership of the Committee changed year on year, which had an impact on the overall effectiveness of the Committee. To address these issues the following changes were agreed by Full Council in May 2010:</p> <ul style="list-style-type: none"> • The size of the Committee be increased to nine members, seven Elected members and two Independent Members • The quorum to remain at three Elected members • Subject to compliance with political balance rules, the Chair and members of the Committee be appointed for a term of two years • No member of Cabinet, or a Chair or Vice Chair of an Overview and Scrutiny Panel shall sit on Audit Committee • Two independent members be co-opted on to the Committee for a four year term, which can be extended for a further period of four years <p>The two Independent members were recruited in September 2010 using the following procedure, which was approved by Audit Committee in June 2010:</p>

Good Practice Questions	Yes	Partly	No	Comments
				<ul style="list-style-type: none"> • A job description is drafted setting out the purpose of the job and the responsibilities of the job holder • A person specification is drafted setting out the skills, knowledge and experience required • The positions are advertised on Nuneaton and Bedworth Borough Council's website • Consideration is given to other ways of attracting candidates so a press release was drafted • Candidates are asked to complete an application form detailing their personal details, qualifications, summary of experience and relevant skills and knowledge • Applications are short listed against the person specification • Short listed applicants are interviewed and the most suitable applicants are recommended for appointment to Full Council <p>The above recruitment process was carried out by Councillors J Haynes (Chair), G Smith and K Wilson in consultation with the Director Finance and Procurement and the Audit and Governance Manager</p> <p><u>Knowledge</u> When the two independent members were recruited the following knowledge, skills and experience were essential:</p> <ul style="list-style-type: none"> • Experience of financial management (accountancy or audit) • Commitment to training and development of the Audit Committee <p>The following were desirable:</p> <ul style="list-style-type: none"> • Experience of Audit Committee work • Knowledge of local government

Good Practice Questions	Yes	Partly	No	Comments
				<ul style="list-style-type: none"> • Knowledge of corporate governance arrangements within the public sector <p>Since recruitment one of the independent members has become a member of the Chartered Institute of Internal Auditors (CIIA)</p> <p>Elected members are not necessarily appointed to the Audit Committee because of their knowledge, skills or experience</p> <p>An assessment against the knowledge and skills framework to be completed and any appropriate training provided</p>
13. Does the chair of the committee have appropriate knowledge and skills?		√		<p>The current Chair Councillor J Haynes has been Chair of the Audit Committee since 2010 so he is very familiar with the core work programme and content of the report</p> <p>Any appropriate training will be identified as part of the assessment against the knowledge and skills framework</p>
14. Are arrangements in place to support the committee with briefings and training?	√			<ul style="list-style-type: none"> • Financial accounting training provided to Audit Committee members alongside the draft financial statements • External auditor has provided training to improve members financial knowledge to enable them to challenge – September 2014 • Corporate governance is part of the annual induction programme for members and this is open to all members • Audit Committee training at Huntingdonshire DC in September 2014, was open to all Committee members

Good Practice Questions	Yes	Partly	No	Comments
15. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			√	<i>An assessment against the knowledge and skills framework to be completed and any appropriate training provided</i>
16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer	√			Representatives from Grant Thornton, the Council's external auditor, the Council's Audit and Governance Manager, the Treasury and Technical Manager and the Chief Finance Officer attend all Audit Committee meetings. Regular one-to-one meetings also take place with the Chair of the Audit Committee
17. Is adequate secretariat and administrative support provided to the committee?	√			Provided by Democratic Support Services who provide administrative support to all members and committees
Effectiveness of the Committee				
18. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	√			To support the external auditors value for money conclusion in their audit findings report dated September 2014, they performed a risk assessment against specified value for money risk indicators. Following completion of this work they noted that there was a potential failure by the Audit Committee to provide robust challenge on financial matters. To overcome this risk finance training was provided to members in September.

Good Practice Questions	Yes	Partly	No	Comments
19. Has the committee evaluated whether and how it is adding value to the authority?			√	<p>This is the second review of the effectiveness of the Audit Committee but both of these have concentrated on the scope of responsibility, membership, training and knowledge etc. There has been no external consultation to establish whether the Committee adds value to Nuneaton and Bedworth Borough Council</p> <p><i>Consideration be given as to how added value should/could be established</i></p>
20. Does the committee have an action plan to improve any areas of weakness?	√			As a result of this review an action plan to improve any areas of weakness has been developed for approval by the Audit Committee. Progress against that plan will be regularly monitored

AGENDA ITEM NO. 9

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to : Audit Committee – 11th November 2014

From : Treasury & Technical Manager

Subject : Treasury Management Monitoring Q2 2014/15

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 first two quarters of 2014/15 saw the following key points:

- After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, and 0.7% in Q1 and 0.9% in Q2 2014, it appears very likely that growth will continue through 2014 and into 2015 as business investment recovers.
- The overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, as set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increase in Bank Rate. The MPC has subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators to form a view of how much slack there is in the economy.
- The MPC is particularly concerned that the current squeeze on disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.
- Most economic forecasters are expecting growth to peak in 2014 and then to ease off in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed into a return to significant

increases in pay rates at some point during the next three years.

- There has been a sharp fall in inflation (CPI), the lowest level since 2009. Forward indications are that inflation will continue to fall further in 2014 to possibly 1%.

4 Economic Outlook

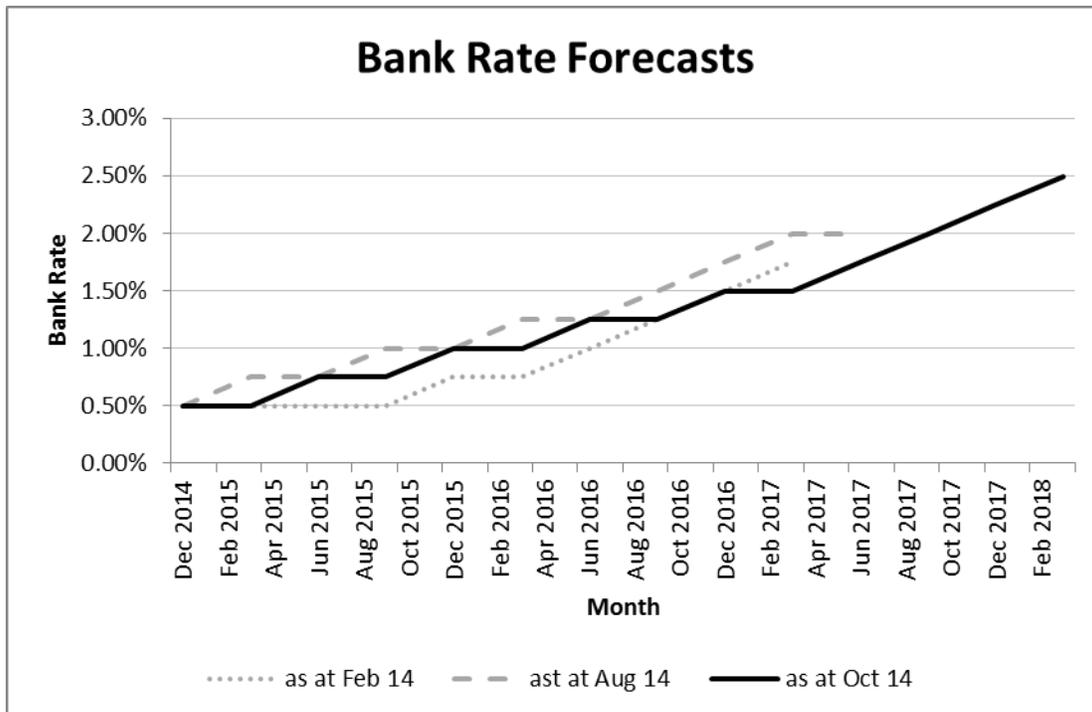
- 4.1 Capita (the Council's treasury management consultants) continue to review the economic situations in both the UK and the rest of the world and the table below details their latest interest rate forecast (October 2014):

	Bank Rate	Money Rates		PWLB Borrowing Rates			
		3 month	1 year	5 year	10 year	25 year	50 year
October 2014	0.50%	0.50%	0.93%	2.40%	3.00%	3.70%	3.70%
December 2014	0.50%	0.50%	0.90%	2.50%	3.20%	3.90%	3.90%
March 2015	0.50%	0.60%	1.00%	2.70%	3.40%	4.00%	4.00%
June 2015	0.75%	0.80%	1.20%	2.70%	3.50%	4.10%	4.10%
September 2015	0.75%	0.90%	1.30%	2.80%	3.60%	4.30%	4.30%
December 2015	1.00%	1.10%	1.40%	2.90%	3.70%	4.40%	4.40%
March 2016	1.00%	1.30%	1.70%	3.00%	3.80%	4.50%	4.50%
June 2016	1.25%	1.40%	1.80%	3.10%	3.90%	4.60%	4.60%
September 2016	1.25%	1.60%	2.10%	3.20%	4.00%	4.70%	4.70%
December 2016	1.50%	1.90%	2.20%	3.30%	4.10%	4.70%	4.70%
March 2017	1.50%	2.10%	2.30%	3.40%	4.10%	4.80%	4.80%
June 2017	1.75%	2.10%	2.40%	3.50%	4.20%	4.80%	4.80%
September 2017	2.00%	2.30%	2.60%	3.50%	4.20%	4.90%	4.90%
December 2017	2.25%	2.40%	2.80%	3.50%	4.30%	4.90%	4.90%
March 2018	2.50%	2.60%	3.00%	3.50%	4.30%	5.00%	5.00%

- 4.2 Capita Asset Services undertook a review of its interest rates forecasts in October following a change in market sentiment and outlook:

- Financial markets have had a panic over recent weeks which has seen equities marked down sharply and investors moving into safe haven bonds, so depressing bond yields.
- There has been an increase in concern that we could be heading into an era of subdued inflation with a greater risk that the Eurozone could be heading into deflation.
- The latest MPC minutes revealed an increase in caution over UK growth prospects so the first increase in Bank rate has been pushed back from February 2015 to either May or June 2015.

- 4.3 Over recent quarters the markets have been extremely volatile and therefore interest rate forecasts have been updated on a regular basis. The graph below highlights the change in market sentiment across the last few quarters and how that has been reflected in the Bank Rate forecasts:



5 Treasury Management Portfolio & Activity

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

- 1st – Security of capital
- 2nd – Liquidity
- 3rd – Return

- 5.2 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.

- 5.3 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 cash flows of the Council to ascertain how much cash will be needed to cover our outgoings and when this will be required.

5.4 Summary portfolio as at 30th September 2014:

	31-Mar-14		30-Sep-14	
	Principal Amount	Average Rate	Principal Amount	Average Rate
	£000		£000	
Investments				
Fixed Rate:				
Fixed Term Deposit (more than 1 year)	0	0.00%	1,000	2.40%
Fixed Term Deposit (less than 1 year)	10,000	0.74%	15,000	0.68%
Certificates of Deposit (less than 1 year)	4,000	0.63%	7,000	0.69%
Total Fixed Rate	14,000	0.71%	23,000	0.76%
Variable Rate Deposits				
Notice Account	0	0.00%	750	0.57%
Instant Access Accounts/ Cash	3,990	0.50%	248	0.40%
Money Market Funds	1,000	0.33%	5,600	0.39%
Total Variable Rate	4,990	0.47%	6,598	0.35%
Total Managed Investments	18,990	0.64%	29,598	0.68%
Borrowing				
General Fund:				
PWLB	7,750	4.67%	7,750	4.67%
Market	2,000	4.10%	2,000	4.10%
Interest Free Loan	13	0.00%	0	0.00%
Total General Fund	9,763	4.55%	9,750	4.55%
Housing Revenue Account:				
PWLB	75,955	2.85%	75,955	2.85%
Market	0	0.00%	0	0.00%
Interest Free Loan	0	0.00%	0	0.00%
Total Housing Revenue Account	75,955	2.85%	75,955	2.85%
Temporary Borrowing	0	0.00%	0	0.00%
Total Borrowing	85,718	3.04%	85,705	3.04%
Net Debt	66,728		56,107	

Investment balances are considerably higher than those held at 31st March 2014. It is not unusual to experience an increase in cash resources at this time of year, however, there has been a number of grants received which have not yet been

spent and delays in the completion of the HRA new build project and other capital projects has increased the resources available from those originally predicted.

5.5 The full detail of the Council's investment portfolio as at 30th September 2014 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 30 September 2014</u>
Lloyds Current Account	£ 247,694	Instant Access	n/a	0.40%	12 months
Goldman Sachs MMF	£ 4,100,000	Instant Access (MMF)	n/a	0.39%	n/a AAA MMF Account
Federated MMF	£ 500,000	Instant Access (MMF)	n/a	0.40%	n/a AAA MMF Account
CCLA MMF	£ 1,000,000	Instant Access (MMF)	n/a	0.38%	n/a AAA MMF Account
Lloyds Bank Plc	£ 750,000	32 Day Notice Account	n/a	0.57%	12 months
Barclays Bank plc	£ 2,000,000	3 month Fixed Term Deposit	15 Oct 14	0.48%	6 months
Nationwide BS	£ 1,000,000	3 month Fixed Term Deposit	15-Oct-14	0.49%	6 months
Barclays Bank plc	£ 1,000,000	3 month Fixed Term Deposit	06-Nov-14	0.48%	6 months
Standard Chartered Bank	£ 1,000,000	6 month Cert' of Deposit	14-Nov-14	0.61%	6 months
Lloyds Bank Plc	£ 2,000,000	1 year Fixed Term Deposit	12 Dec 14	0.98%	12 months
Nationwide BS	£ 2,000,000	3 month Fixed Term Deposit	17-Dec-14	0.50%	6 months
Standard Chartered Bank	£ 2,000,000	6 month Cert' of Deposit	02-Jan-15	0.60%	6 months
Barclays Bank plc	£ 1,000,000	6 month Fixed Term Deposit	09-Jan-15	0.61%	6 months
Lloyds Bank Plc	£ 1,000,000	1 year Fixed Term Deposit	12-Jan-15	0.95%	12 months
Nationwide BS	£ 2,000,000	6 month Fixed Term Deposit	15-Jan-15	0.64%	6 months
Barclays Bank plc	£ 1,000,000	6 month Fixed Term Deposit	02-Feb-15	0.61%	6 months
The Royal Bank of Scotland Plc	£ 2,000,000	6 month Cert' of Deposit	02-Mar-15	0.66%	12 months
Lloyds Bank Plc	£ 1,000,000	1 year Fixed Term Deposit	09 Apr 15	0.95%	12 months
The Royal Bank of Scotland Plc	£ 2,000,000	9 month Cert' of Deposit	05-May-15	0.85%	12 months
Lloyds Bank Plc	£ 1,000,000	1 year Fixed Term Deposit	02-Jun-15	0.95%	12 months
Peterborough City Council	£ 1,000,000	5 year Fixed Term Deposit	28-Jun-19	2.40%	5 years
	£ 29,597,694				

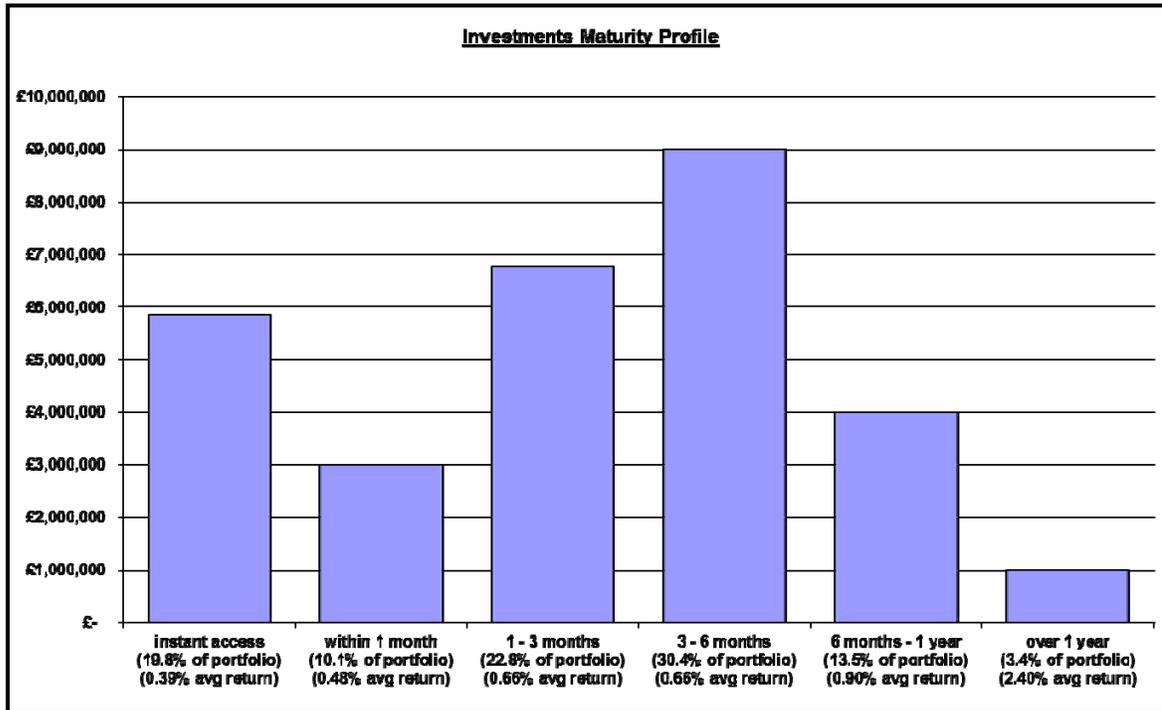
5.6 The closing portfolio is split across the following deposit types and periods:

Portfolio Structure as at 30 Sep 14	Deposit Period								Total Deposits	
	Liquid (Instant Access)		Non Liquid (less than 3 mths)		Non Liquid (less than 1 year)		Non Liquid (more than 1 year)		Return	Return
	Return	Return	Return	Return	Return	Return				
MMFs/ Gov't <i>proportion of portfolio</i>	£5.60m (19%)	0.39%	-	-	-	-	£1.00m (3%)	2.40%	£6.60m (22%)	0.69%
Part Nationalised Banks <i>proportion of portfolio</i>	£0.25m (1%)	0.40%	£0.75m (3%)	0.57%	£9.00m (30%)	0.87%	-	-	£10.00m (34%)	0.84%
Other Institutions <i>proportion of portfolio</i>	-	-	£6.00m (20%)	0.56%	£7.00m (24%)	0.62%	-	-	£13.00m (44%)	0.59%
Total <i>proportion of portfolio</i>	£5.85m (20%)	0.39%	£6.75m (23%)	0.56%	£16.00m (54%)	0.76%	£1.00m (3%)	2.40%	£29.60m (100%)	0.68%

5.7 This portfolio split is considered low risk for loss of principal amount invested due to investments placed with high rated UK counterparties. Liquidity risk is also low

as approximately £6m of our investments are held in instant access to manage day to day outgoings. Detailed cash flow forecasts are also maintained for a period of at least 12 months and a high level 5 year cash flow constructed during the budget process to manage liquidity risk.

5.8 The maturity profile of investments held as at 30th September 2014:



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

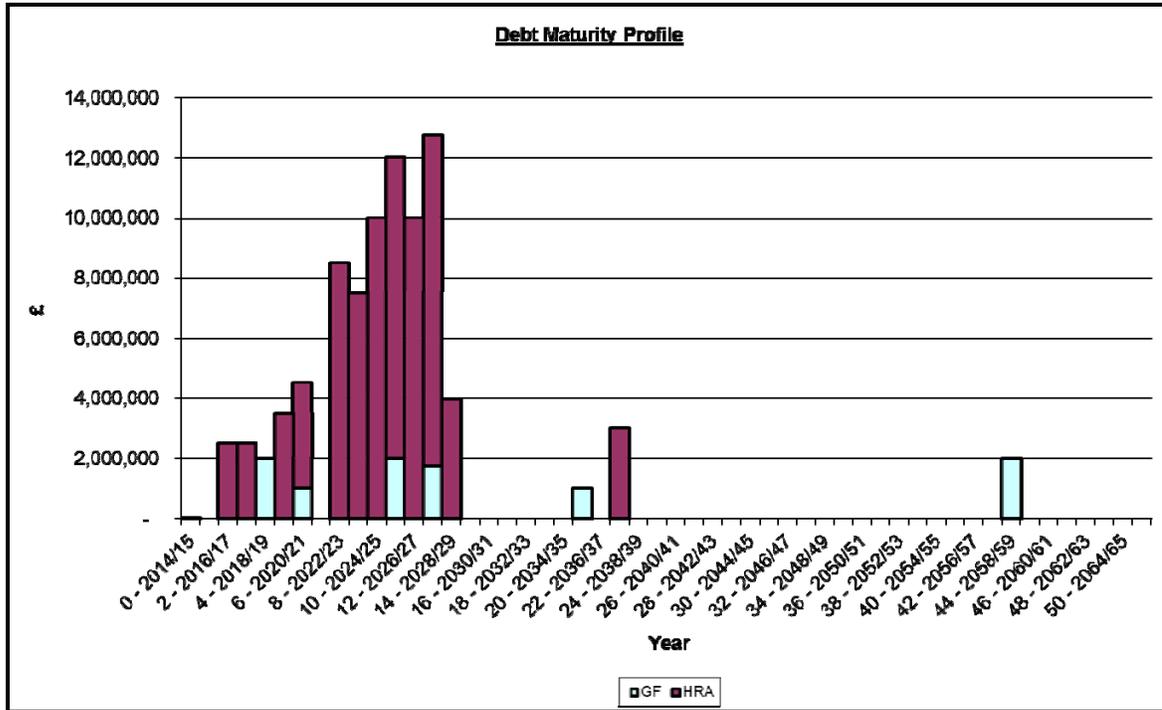
5.10 Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates following increases in PWLB new borrowing rates in October 2010. No debt rescheduling was undertaken during the first 2 quarters of 2014/15.

5.11 The current PWLB early repayment rates still indicate that premiums would be payable on debt holdings. Nuneaton and Bedworth are already in an under-borrowed position and to increase that position further would increase the likelihood that new debt would be required in the future as grants and reserves are spent and our cash balances are reduced. Taking into account the latest interest rate forecast which highlights that borrowing rates are predicted to increase, it is not considered prudent at present to repay any debt.

5.12 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 a high refinancing risk. Therefore, it is not deemed affordable or prudent at the current time to reschedule any existing debt.

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



5.14 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.

5.15 Average Balances & Returns

	2013/14 Full Year		2014/15 to end Sep 2014	
	Weighted Average Principal £000	Average Rate	Weighted Average Principal £000	Average Rate
Investments				
Fixed Rate Deposits:				
Fixed Rate more than 1 year	0	0.00%	508	2.40%
Fixed Rate less than 1 year	12,071	0.80%	13,568	0.67%
Certificates of Deposit less than 1 year	3,310	0.56%	5,087	0.65%
Total Fixed Rate	15,381	0.75%	19,163	0.71%
Variable Rate Deposits				
Instant Access Accounts	5,294	0.53%	2,550	0.42%
Notice Account	0	0.00%	29	0.57%
Money Market Funds	3,045	0.36%	8,398	0.38%
Total Variable Rate	8,339	0.47%	10,977	0.39%
Total Managed Investments	23,720	0.65%	30,140	0.59%
Icelandic Deposits not yet repaid	1,251		0	
Total Investments	24,971		30,140	
<i>average Bank Rate</i>		0.50%		0.50%
<i>average 3 month LIBID (benchmark)</i>		0.39%		0.42%
Borrowing (All Fixed Rate)				
Long Term				
PWLB	85,479	2.97%	83,705	3.02%
Market	2,000	4.10%	2,000	4.10%
Interest Free Loans	31	0.00%	11	0.00%
Total Long Term	87,510	2.99%	85,716	3.04%
Temporary Borrowing	0	0.00%	0	0.00%
Total Borrowing	87,510	2.99%	85,716	3.04%
Pool Analysis of Long Term Debt:				
			2014/15	
			Weighted	Average
			Average	Rate
			Principal	
			£000	
General Fund				
PWLB			7,750	4.67%
Market			2,000	4.10%
Interest Free Loans			11	0.00%
Total General Fund			9,761	4.55%
Housing Revenue Account				
PWLB			75,955	2.85%
Market			0	0.00%
Interest Free Loans			0	0.00%
Total Housing Revenue Account			75,955	2.85%

5.16 The average return of 0.59% for investments can be analysed further as shown below:

Type of Investment	Benchmark Return (3 mth LIBID)	Council Return	Weighted Average Balance to 30 Sep 14 £000	Investment Interest £000
Instant Access Accounts		0.41%	2,550	5.28
Money Market Funds		0.38%	8,398	15.85
Other Deposits (placed during 14/15)		0.68%	12,242	41.60
Subtotal (14/15 activity)	0.42%	0.54%	23,190	62.73
Deposits (b/f from 13/14)		0.77%	6,951	26.95
All Deposits		0.59%	30,141	89.68

The analysis shows that the Treasury team have achieved returns above the benchmark rate for investments placed during the year with performance of 0.54% against a benchmark of 0.42%.

5.17 With the continued uncertainty in the European and wider economic climate, the Treasury Team have been cautious when placing deposits, restricting counterparties to UK banks and building societies, MMFs and other local authorities. The table below displays our activity across each of the counterparties and by period:

Year to Date Summary information up to 30 Sep 14	Deposit Period								Total Deposits	
	Liquid (Instant Access)		Non Liquid (less than 3 mths)		Non Liquid (less than 1 year)		Non Liquid (more than 1 year)		Return	Return
	Return	Return	Return	Return	Return	Return				
MMFs/ Gov't <i>proportion of portfolio</i>	£8.40m (28%)	0.38%	-	-	-	-	£0.51m (2%)	2.40%	£8.91m (30%)	0.49%
Part Nationalised Banks <i>proportion of portfolio</i>	£2.55m (8%)	0.41%	£0.03m	0.57%	£5.96m (20%)	0.94%	-	-	£8.54m (28%)	0.78%
Other Institutions <i>proportion of portfolio</i>	-	-	£6.92m (23%)	0.47%	£5.77m (19%)	0.62%	-	-	£12.69m (42%)	0.54%
Total <i>proportion of portfolio</i>	£10.95m (36%)	0.38%	£6.95m (23%)	0.47%	£11.73m (39%)	0.78%	£0.51m (2%)	2.40%	£30.14m (100%)	0.59%

5.18 Investment Activity to 30th September 2014:

	Instant Access Accounts	MMFs	Notice Account	Certificates of Deposit	Fixed Term Deposits	Total
	£000	£000	£000	£000	£000	£000
Opening Investments 01 April 2014	3,990	1,000	-	4,000	10,000	18,990
Q1-Q2 Activity						
Deposits	21,427	51,255	750	7,000	21,000	101,432
Withdrawals/ Maturities	(25,169)	(46,655)	-	(4,000)	(15,000)	(90,824)
Closing Investments 30 September 2014	248	5,600	750	7,000	16,000	29,598
Weighted Average Balances 2014/15	2,550	8,398	29	5,087	14,076	30,140

Fixed Term Deposits & Certificates of Deposits deals Q1 - Q2					
Counterparty	Amount	Rate	Term	Deal Date	Maturity Date
	£000				
Lloyds Bank	1,000	0.95%	1 year	10 Apr 14	09 Apr 15
Nationwide Building Society	2,000	0.47%	3 mths	15 Apr 14	15 Jul 14
Barclays Bank	2,000	0.44%	3 mths	15 Apr 14	15 Jul 14
Barclays Bank	1,000	0.45%	3 mths	01 May 14	01 Aug 14
Barclays Bank	1,000	0.45%	3 mths	06 May 14	06 Aug 14
Standard Chartered (Cert' of Deposit)	1,000	0.61%	6 mths	15 May 14	14 Nov 14
Lloyds Bank	1,000	0.95%	1 year	03 Jun 14	02 Jun 15
Nationwide Building Society	2,000	0.49%	3 mths	17 Jun 14	14 Sep 14
Peterborough City Council	1,000	2.40%	5 years	30 Jun 14	28 Jun 19
Standard Chartered (Cert' of Deposit)	2,000	0.60%	6 mths	02 Jul 14	02 Jan 15
Barclays Bank	1,000	0.61%	6 mths	09 Jul 14	09 Jan 15
Nationwide Building Society	2,000	0.64%	6 mths	15 Jul 14	15 Jan 15
Barclays Bank	2,000	0.48%	3 mths	15 Jul 14	15 Oct 14
Nationwide Building Society	1,000	0.49%	3 mths	15 Jul 14	15 Oct 14
Barclays Bank	1,000	0.61%	6 mths	01 Aug 14	02 Feb 15
Royal Bank of Scotland (Cert' of Deposit)	2,000	0.85%	9 mths	04 Aug 14	05 May 15
Barclays Bank	1,000	0.48%	3 mths	06 Aug 14	06 Nov 14
Royal Bank of Scotland (Cert' of Deposit)	2,000	0.66%	6 mths	01 Sep 14	02 Mar 15
Nationwide Building Society	2,000	0.50%	3 mths	17 Sep 14	17 Dec 14
	28,000				

5.19 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.

5.20 Debt activity to 30th September 2014:

	Interest Free Loans	Market Loans	PWLB	Total
	£000	£000	£000	£000
Opening Debt 01 April 2014	13	2,000	83,705	85,718
Q1-Q2 Activity				
New Loans	-	-	-	-
Repayments	(13)	-	-	(13)
Closing Debt 30 September 2014	-	2,000	83,705	85,705

5.21 **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).

5.22 It is estimated the Council is currently approximately £5.3m under-borrowed (CFR less actual debt). 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	Housing Revenue Account	Total
	£000	£000	£000
Debt Holdings as at 30 Sep 14	9,750	75,955	85,705
CFR at 30 Sep 14	13,505	77,548	91,053
(Under) / Over Borrowing Position	(3,755)	(1,593)	(5,348)
Forecast Debt Holdings as at 31 Mar 15	9,750	75,955	85,705
Forecast CFR at 31 Mar 15	13,260	77,548	90,808
(Under) / Over Borrowing Position	(3,510)	(1,593)	(5,103)

5.23 The HRA self financing regime introduced a debt cap for the HRA CFR for each Council. This level, set by CLG, provides an absolute maximum level which cannot be breached. For Nuneaton and Bedworth Borough Council the debt cap was set at £89.65m. Therefore, we can confirm that we are within the limit and the current debt strategy ensures that we will continue to remain significantly below this limit.

5.24 Even though current borrowing rates remain at a low level, it is proposed that we remain in an under-borrowed position whilst cash balances are high enough to

maintain this strategy. 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.

5.25 As the HRA is now fully self financed a local indicator is now included to inform Members of the HRA debt against the number of dwellings. The following table provides this information updated to account for the movement in stock count during the year:

<i>Based on number of right to buy sales to end of September 2014</i>	Actual	Estimate
	31-Mar-14	31-Mar-15
Number Dwellings	5,863	5,849
HRA CFR	£77,547,615	£77,547,615
CFR (Debt) per dwellings	£13,227	£13,258
<i>Based on number of right to buy sales to end of September 2014</i>	Actual	Estimate
	2013/14	2014/15
Average number of dwellings for financial year	5,881	5,856
HRA cost of debt <i>(debt cost plus cost of underborrowed position)</i>	£2,186,968	£2,176,140
Cost per dwelling per annum	£372	£372
Cost per dwelling per week (52 weeks)	£7	£7

5.26 Revenue Position 2014/15.

The table below shows the position for 2014/15 for investment income, interest payable and MRP against the approved budget:

	Actual to Q2	Predicted Outturn	Full Year Budget	Variance
	£000	£000	£000	£000
General Fund				
Treasury Investment Income	(72)	(141)	(121)	(20)
Debt Interest	223	445	445	-
Subtotal	151	304	324	(20)
MRP	245	490	490	-
Total		794	814	(20)
Housing Revenue Account				
Treasury Investment Income	(17)	(31)	(25)	(6)
Debt Interest	1,086	2,167	2,167	-
Total	1,069	2,136	2,142	(6)

5.27 Interest rates available in the markets are somewhat lower than budgeted. However, cash balances available to invest are higher than originally predicted generating addition investment income and the current full year prediction is that a

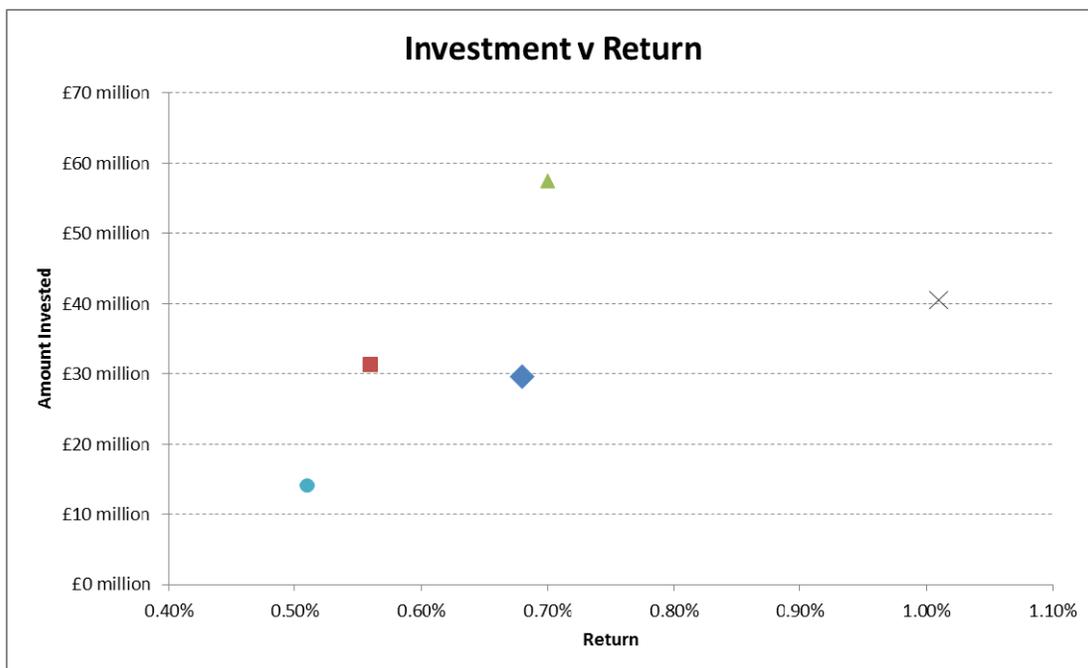
surplus to the budget will be achieved.

6 Benchmarking

6.1 In order to review performance and to highlight areas of potential improvement, the Treasury Team have liaised with other local authorities and obtained investment data reports as at 30th September 2014. This information has been used to produce a number of charts to compare Nuneaton and Bedworth Borough Council against other district councils.

6.2 Chart 1 – Investment Balances v Investment Return

	Return	Investment (£m)
NBBC (Diamond)	0.68%	29.60
Council A (Square)	0.56%	31.30
Council B (Triangle)	0.70%	57.50
Council C (Cross)	1.01%	40.50
Council D (Circle)	0.51%	14.10



This chart shows that there appears to be a link between balances held and returns achievable, however, Council C appears to be a “star performer” of the group achieving returns of around 1%. Having reviewed their portfolio, there are a number of high return instruments which at present do not fit within our strategy (property funds and corporate bonds) and at the moment we would not be looking to invest in these areas.

6.3 Chart 2 – Weighted Average Maturity (at execution) v Investment Return

	Return	WAM at execution (Days)
NBBC (Diamond)	0.68%	217
Council A (Square)	0.56%	121
Council B (Triangle)	0.70%	245
Council C (Cross)		no data
Council D (Circle)	0.51%	69



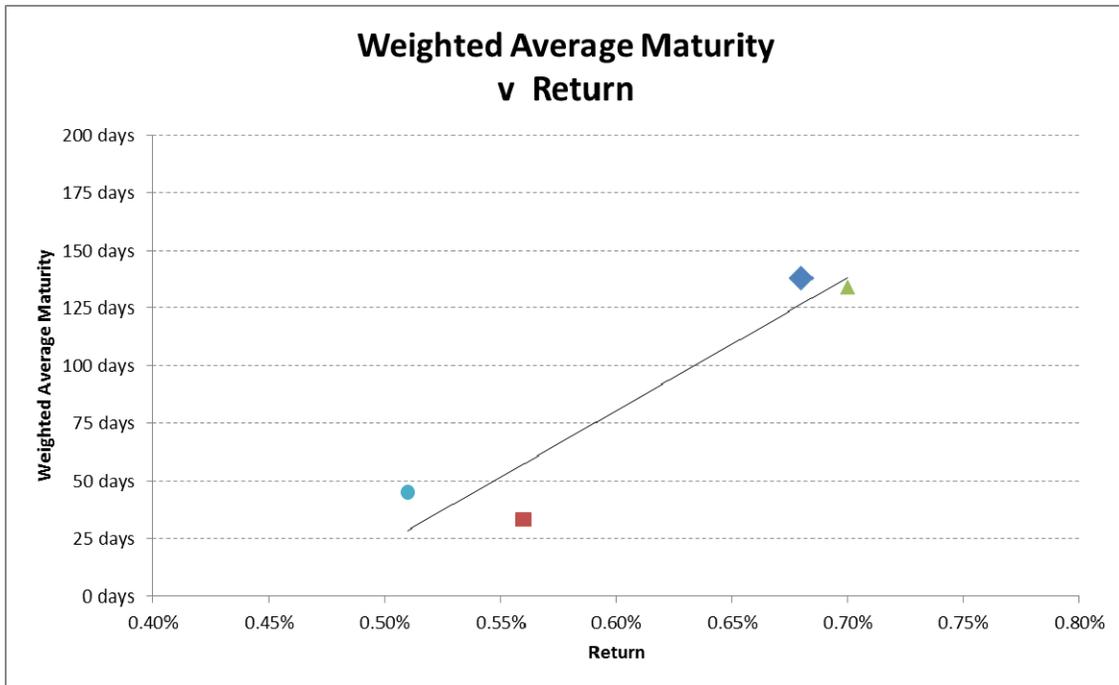
The weighted average maturity (at execution) is the average number of days for our investments at the point they were placed and not the remaining life of the investments.

This analysis also shows a link between the length of time that deposits are placed and the returns achievable. Nuneaton and Bedworth have a WAM at execution of 217 days which reflects the recent 5 year deposit placed with Peterborough City Council. Councils A and D have opted for a significantly lower period for deposits placed and this has impacted on returns.

When placing longer dated deposits, treasury dealers must be comfortable of their cashflow forecasts, the quality of their counterparty and to consider the interest rate forecasts and what the impact on future returns may be. Councils A and D may also be taking a very risk averse approach to their investments and it is up to each council to decide on their risk appetite.

6.4 Chart 3 – Weighted Average Maturity v Investment Return

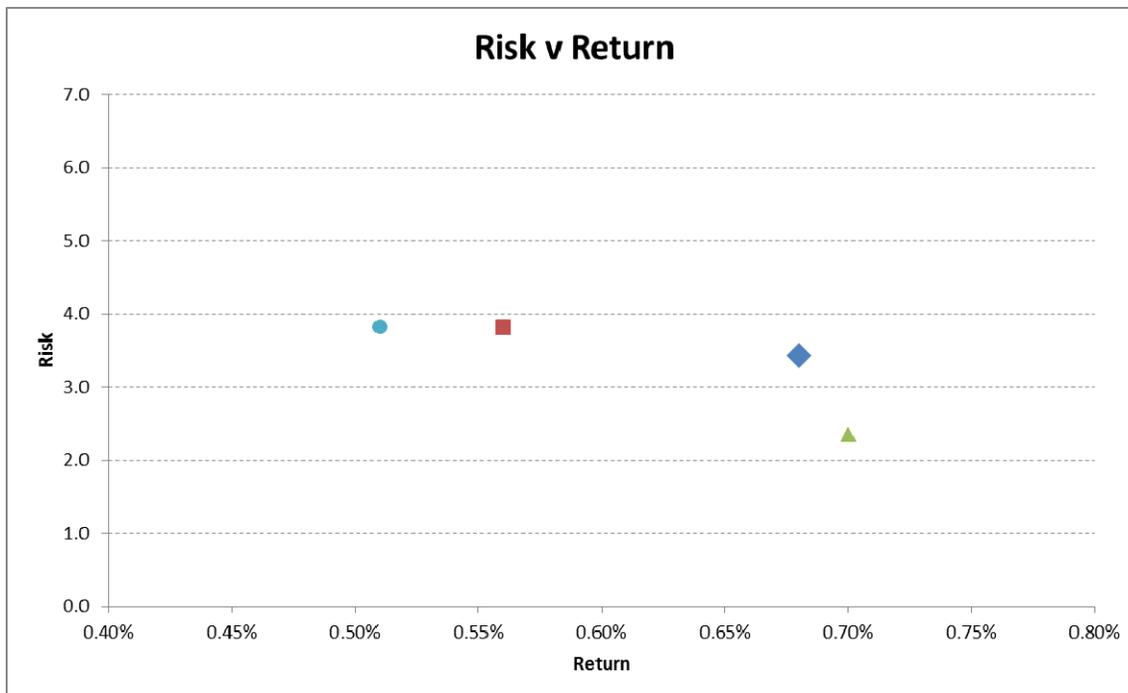
	Return	WAM (days)
NBBC (Diamond)	0.68%	138
Council A (Square)	0.56%	33
Council B (Triangle)	0.70%	134
Council C (Cross)		no data
Council D (Circle)	0.51%	45



The weighted average maturity (WAM) is the average number of days remaining on investments held within the portfolio. Again, councils A and D display a low number of days until maturity which is reflected in their returns. Council B and Nuneaton and Bedworth display very similar WAMs and returns in both Chart 2 and Chart 3 although the balances available to Council B (as indicated in Chart 1) are significantly higher than those available to Nuneaton and Bedworth.

6.5 Chart 4 – Counterparty Risk v Investment Return

	Return	Risk Factor
NBBC (Diamond)	0.68%	3.43
Council A (Square)	0.56%	3.81
Council B (Triangle)	0.70%	2.35
Council C (Cross)		no data
Council D (Circle)	0.51%	3.82



Capita (our treasury advisers) provide their clients with a risk score for their portfolio based on the creditworthiness of each of their investment counterparties. This is scored 1 to 7, with 7 being the highest risk.

Nuneaton and Bedworths risk score of 3.43 is actually slightly lower than the risk scores of Councils A and D although returns achieved are greater than those Councils. Council D displays the lowest risk score of the group and this is due to a number of longer dated deposits placed with other Local Authorities, bringing down the average risk score.

6.6 The 4 charts show that although Nuneaton and Bedworth are achieving similar returns and showing similar WAMs with Council D, the different risk appetites and available balances for the other Council's affects the returns achieved on their portfolios. Each Council will adopt different investment strategies dependant on their view of risks and their individual cash flow forecasts. While this data is useful in determining potential areas for improvement, Councils are not in direct competition with each other to achieve the best return as the primary objective for

local authority cash investments is to consider the security and liquidity of any deposit before an improved yield is sought.

7 Prudential/ Treasury Indicators

7.1 A summary of the prudential & treasury indicators as at 30th September 2014 are detailed in the following table:

	2014/15 Approved Indicator/ Budget		2014/15 Latest Estimate		
Capital Financing Requirement (CFR)	GF	£13.26m	GF	£13.26m	☺
	HRA	£77.55m	HRA	£77.55m	
	Total	£90.81m	Total	£90.81m	
Capital Expenditure	GF	£5.55m	GF	£8.13m	☹
	HRA	£15.15m	HRA	£9.24m	
	Total	£20.70m	Total	£17.37m	
Authorised Limit for External Borrowing	£112.91m		Maximum up to 30 th September £85.72m		☺
Operational Boundary for External Borrowing	£90.81m				☺
Limit of fixed interest rates based on net debt (<i>debt less investments</i>)	£85.72m		Maximum up to 30 th September £71.72m		☺
Limit of variable interest rates based on net debt (<i>debt less investments</i>)	£17.14m		Maximum up to 30 th September (£6.39m)		☺
Principal sums invested > 364 days (at inception)	£3.00m		£1.00m		☺

	2014/15 Approved Indicator/ Budget		2014/15 Latest Estimate			
Maturity Structure of Borrowing (<i>maximum principal due to mature in period</i>):			<i>Debt Holdings as at end September 2014</i>			
			<i>GF</i>	<i>HRA</i>	<i>NBBC</i>	
Under 12 months	20%		0%	0%	0%	☺
12 months – 2 years	20%		0%	0%	0%	☺
2 – 5 years	20%		20%	7%	8%	☺
5 – 10 years	50%		10%	30%	28%	☺
10 – 20 years	100%		39%	59%	57%	☺
20 – 30 years	100%		10%	4%	5%	☺
30 – 40 years	100%		0%	0%	0%	☺
40 – 50 years	100%		21%	0%	2%	☺

- 7.2 The increase for capital spend in the General Fund when compared to the original indicator is due to an increase in the programme for 2015/16 of £3.6m for projects slipped from 2013/14 and for a number of new schemes as reported to Cabinet in July and September, less approximately £1m for projects where spend is now expected to occur during 2015/16.
- 7.3 The decrease in the HRA predicted capital spend is primarily due to the delay in delivery for one of the new build schemes which is now expected to be completed during 2015/16.
- 7.4 All treasury and prudential indicators are within their approved limits.

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 Conclusion

- 9.1 The continuation of low investment returns available has made the task of achieving our budgeted return on our investments extremely difficult in the current market. Security of the principal amount deposited will continue to remain the primary objective when placing deposits, however, we will continue to investigate the markets to identify any opportunities that may provide us with enhanced returns whilst remaining within the confines of our approved treasury strategy and counterparty selection criteria.
- 9.2 Furthermore, the Treasury Management team, with the assistance of Capita, will continue to monitor investment counterparty creditworthiness and manage the debt and investment portfolio to allow us to react to changes in interest rates, rate forecasts and the capital and investment markets.

CRAIG PUGH

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