

30 January 2017

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY**
7 FEBRUARY 2017 in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at
7.00 pm.



David Hagg
Chief Executive

Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

AGENDA

1. **APOLOGIES**
To receive apologies for absence.
2. **DECLARATIONS OF INTEREST**
To receive declarations of interest.
3. **MINUTES**
To approve the minutes of the meeting held on 22 November 2016.
4. **PUBLIC QUESTION TIME**
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.
DEADLINE FOR RECEIPT OF QUESTIONS
Noon on THURSDAY 2 FEBRUARY 2017.
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email:
democratic.services@stroud.gov.uk.
5. **WORK PROGRAMME**
To consider and update the work programme.

6. **ANNUAL SUMMARY OF CERTIFICATION OF GRANT CLAIMS AND RETURNS 2015/16**
To receive a verbal update summarising the key findings from KPMG audit.
7. **3rd QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17**
To provide an update on treasury management activity as at 31/12/2016.
8. **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18**
To consider the Council's prudential indicators 2016/17 – 2018/19, together with the treasury strategy for this period and make recommendations to Council as set out within the report.
9. **ANNUAL GOVERNANCE STATEMENT 2015/16 IMPROVEMENT PLAN UPDATE**
To receive an update of the Council's Corporate Governance arrangements.
10. **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**
To inform Members of the internal audit activity progress in relation to the approved internal audit plan.
11. **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Rachel Curley (Vice Chair)
Councillor Martin Baxendale
Councillor Stephen Davies
Councillor Colin Fryer

Councillor Keith Pearson
Councillor Mark Reeves
Councillor Tom Williams
Councillor Penny Wride

AUDIT AND STANDARDS COMMITTEE

22 November 2016

7.00 pm – 7.48 pm

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Council Chamber, Ebley Mill, Stroud

Minutes

Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Keith Pearson	A
Councillor Rachel Curley (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Martin Baxendale	P	Councillor Tom Williams	P
Councillor Stephen Davies	P	Councillor Penny Wride	A
Councillor Colin Fryer	P		

A = Absent P = Present

Officers in attendance

Accountancy Manager
Interim Section 151 Officer
Principal Accountant

Head of Audit Risk Assurance
Democratic Services Officer

Others in attendance

Councillor Nigel Cooper

AC.026

APOLOGIES

Apologies were received from Councillors Penny Wride and Keith Pearson.

AC.027

DECLARATIONS OF INTEREST

There were none.

AC.028

MINUTES

RESOLVED

That the Minutes of the meeting held on 22 September 2016, are approved as a correct record.

AC.029

PUBLIC QUESTION TIME

There were none.

AC.030 **WORK PROGRAMME**

There were no amendments to current work programme.

RESOLVED **To note the work programme.**

AC.031 **ANNUAL AUDIT LETTER 2015/16**

The Chair introduced this item. Apologies were received from KPMG, the Accountancy Manager highlighted certain items in the letter.

RESOLVED **To note the report.**

AC.032 **HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2016/17**

The Principal Accountant explained that this report updated the position on treasury management activity for the first six months of the financial year. He replied to questions relating to Paragraphs 11 and 13 of the report, and the borrowing and investment against the treasury management strategy.

RECOMMENDED TO COUNCIL **That Full Council APPROVES the treasury management activity half year report for 2016/2017.**

AC.033 **HOUSING REVENUE ACCOUNT (HRA) BALANCES – SECOND FOLLOW UP REPORT**

The Head of Audit Risk Assurance presented the report on the Internal Audit activity outcome in relation to the HRA balances, she explained that there would be further audit reviews, reports and recommendations to Committee next year. The Interim Section 151 Officer explained that processes are in place and will be further strengthened to ensure checks and balances are carried out.

RESOLVED **To accept the outcome of the HRA balances second follow up report, in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.**

AC.034 **REVIEW OF RISK REGISTER**

The Accountancy Manager presented the report which showed risks on the register up to the beginning of November. The risk register changes constantly in relation to risks and how they are scored and managed.

Questions from Members were answered in relation to mitigation of risks, identifying, scoring and reviewing risks. It was explained the risk associated with Brimscombe Port and receipt of grant income, will be reflected in the risk register.

RESOLVED **That the Risk Management process is fit for purpose, and the Risk Register as set at page 4 is representative of the key risks facing the Council.**

AC.035**PROPOSED RISK MANAGEMENT ACTION PLAN**

The Head of Audit Risk Assurance presented her report which provided a framework for Corporate Risk Management. She explained that discussions were taking place with officers, on how the Strategic Risk Register could be presented in the future, to enable the relevant assurances to be provided that these key risks are being effectively managed.

RESOLVED

- a) **To accept the Risk Management Action Plan; and**
- b) **That further updates and outcomes will be provided to the Committee during 2016/2017 either by committee information sheets or reports as appropriate.**

AC.036**INTERNAL AUDIT CHARTER**

The Head of Audit Risk Assurance presented her report which informed Members of revisions to the Public Sector Internal Audit Standards (PSIAS) these were effective from 1st April 2016 and therefore the Internal Audit Charter has been updated accordingly. The new mission statement and revised core principles are provided in the report.

RESOLVED

To review and consider the IA Charter and to formally approve its adoption.

AC.037**MEMBER QUESTIONS**

There were none.

The meeting closed at 7.48 pm.

Chair

AUDIT AND STANDARDS COMMITTEE

7 FEBRUARY 2017

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WORK PROGRAMME

Date of meeting	Matter to be considered (i.e. insert report / project title)	Lead Member and Officer)
11 April 2017	Financial Statements 2016/17 Audit Plan	KPMG
	Internal Audit Activity Progress Report 2016/17	T Mortimer
	Annual Internal Audit Plan 2017/18	T Mortimer
	Review of the Procurement Action Plan	S Turner
	Annual Report Of the Audit & Standards Committee	Cllr Studdert-Kennedy
	HRA Balances Internal Audit Follow up Review	T Mortimer
	Risk Management Policy Statement and Strategy 2017 – 2020	T Mortimer
	Anti Fraud and Corruption Policy Statement and Strategy including Anti Bribery Policy and Anti Money Laundering Policy 2017 - 2019	T Mortimer

Agenda item to be allocated to a future meeting:

June / July 2017	Audit Update Report on Council Tax and Business Rate Systems for Direct Debit payments	T Mortimer
	HRA Balances – Third follow up report	T Mortimer
Oct / Nov 2017	Partnership Update	T Mortimer

Information sheets sent to committee members

Date sent (and reference number)	Topic	Notes (e.g. responsible officer)
22 Nov 2016 AS-2016/17-002	Internal Audit Information Sheet – <ul style="list-style-type: none"> Internal Audit Activity Progress 2016/17 Anti-Fraud and Corruption Policy Statement and Strategy 	T Mortimer
24 Jan 2017- SR-2016/17-002	Review of Council Tax and Business Rates Direct Debit Payment Issues	J Jordan and S Killen

Future Information Sheets

- Update on Brimscombe Port
- ICT Strategy and Spending



Annual Report on grants and returns 2015/16

Stroud District Council

January 2017



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The contacts at KPMG in connection with this report are:

Darren Gilbert

Director

KPMG LLP (UK)

Tel: 029 2046 8205

darren.gilbert@kpmg.co.uk

Matthew Arthur

Senior Manager

KPMG LLP (UK)

Tel: 029 2046 8006

matthew.arthur@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £24.9m
- Under separate assurance engagements we certified 3 claims/returns as listed below.
 - The Pooling of Housing Capital Receipts 2015/16 Return to Department for Communities and Local Government.
 - Two Housing and Communities Agency (HCA) Compliance reports on specific housing development projects.

We also concluded the certification work on the Pooling of Housing Capital Receipts Return for 2014/15 following delays in the previous year certification.

Certification and assurance results (Pages 3-4)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was unqualified.

Our work on the other grant assurance engagements resulted in the following reports:

- A report to DCLG relating to the Pooling of Housing Capital Receipts Return, which was qualified as a result of the lack of retained evidence for us to verify the historic 1999 housing valuations used in certain aspects of the return. A similar qualification was also required for the 2014/15 report finalised during the year;
- Two audit findings statements to HCA which contained no significant non-compliance issues.

No adjustments were necessary to the Council's grants and returns for 2015/16 as a result of our certification work this year. The Pooling of Housing Capital Receipts 2014/15 return was amended during its finalisation this year (see page 5).

Recommendations

We have made no recommendations to the Council from our work this year and agreed an action plan with officers.

In addition there were 3 recommendations outstanding from previous years' work on grants and returns. Only one of these recommendations related to a grant that is still in scope for certification this year (the other two related to the one-off Decent Homes Funding grant). We have confirmed during our 2015/16 certification that the remaining recommendation (relating to the accuracy of new build expenditure within the Pooling of Housing Capital Receipts Return) has been implemented.

Fees (Page 6)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £9,900, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were:

- Pooling of Housing Capital Receipts Return 2015/16– £3,000
- Pooling of Housing Capital Receipts Return 2014/15 additional fee – £3,460
- HCA Compliance audits x 2 - £3,500

Summary of reporting outcomes





Overall, we carried out work on 4 grants and returns relating to 2015/16:

- 3 were unqualified with no amendment or significant findings reported; and
- 1 required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2015/16 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy					
Other assurance engagements					
— Pooling of Housing Capital Receipts Return 2015/16					
— HCA Compliance audits x 2					
		1	0	0	3

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Pooling of Housing Capital Receipts Return 2015/16</p> <ul style="list-style-type: none"> — The return was qualified as a result of our inability to perform the test to agree a sample of Right to Buy disposals included in the quarterly 'input data' worksheet to confirm that the archetypes and 1999 valuations have been recorded correctly, as the relevant prime housing records used to populate the Council's housing records spreadsheet could not be located by the Council. — This qualification was also applied to the 2014/15 return which was finalised this year following amendments made to the new build expenditure figures within the return. 	N/A

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £16,400.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £9,900. Our actual fee was the same as than the indicative fee, and this compares to the 2014/15 fee for this claim of £10,120.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2015/16 were in line with the fees agreed in advance with the exception of the additional fee charged to finalise the 2014/15 Pooling of Housing Capital Receipts Return. Other movements in fee as a result in the change in one-off grant certifications required.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	9,900	10,120
Pooling of Housing Capital Receipts Return	3,000	6,460*
HCA Compliance audit x 2	3,500	N/A
Decent Homes Backlog Funding	N/A	3,500
Total fee	16,400	20,080

* Includes £3,460 additional fee charged during 2015/16 to finalise 2014/15 claim



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STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 FEBRUARY 2017

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Report Title	3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17
Purpose of Report	To provide an update on treasury management activity as at 31/12/2016.
Decision(s)	The Audit and Standards Committee APPROVES the treasury management activity third quarter report for 2016/2017.
Consultation and Feedback	Capita Asset Services Limited
Financial Implications & Risk Assessment	Interest of £202k in the third quarter is on target to achieve £250k for 2016/17. Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Legal Implications	This report provides a review on recent treasury management performance and as such is largely being provided for information. There are no legal implications to report. Karen Trickey, Legal Services Manager and Monitoring Officer Email : karen.trickey@stroud.gov.uk Tel: 01453 754369
Report Author	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk
Performance Management Follow Up	A full 2016/17 annual report
Appendices	A – Economic Update B – Prudential Indicators as at 31 December 2016 C – Explanation of prudential indicators

Background

1. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the third quarter of the financial year, and to report on prudential indicators and compliance with treasury limits. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2011, originally adopted by this Council on 21 January 2010. This third quarter report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - An economic update – Appendix A
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council's investment portfolio for 2016/17
 - A review of the Council's borrowing strategy for 2016/17
 - A review of compliance with Treasury and Prudential Limits for 2016/17.
 - Other Treasury Issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2016/17 was approved by Council on 25 February 2016. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
 1. Security of Capital
 2. Liquidity
 3. Yield
5. 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 investments short term, less than 1 year, with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay. The Council is prepared to invest for up to 366 days with UK Government supported banks. Where possible the Council has invested for 3, 6, 9 or 12 month periods to benefit from higher interest rates, rather than using call accounts.
6. A breakdown of the Council's investment portfolio as at 31 December 2016 is shown in Table 2 of this report. Investments & borrowing during the year have been in line with the strategy, with the exception of a breach of an amount limit during the first quarter, and reported in the first quarter report.

7. Capita's latest economic analysis is set out in Appendix A. Current advice from Capita is to invest for no more than a year with UK banks, or up to a maximum of five years with government or local government provided they are sufficiently highly rated on Capita's weekly list. The Council has a maximum investment duration of 3 years.

Investment Portfolio 2016/17

8. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the third quarter is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Investment	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/16 - 30/06/16	£59,510	£34.328m	0.72%	0.36%	0.43%
01/07/16 - 30/09/16	£60,670	£35.365m	0.65%	0.12%	0.25%
01/10/16 - 31/12/16	£53,540	£36.430m	0.58%	0.12%	0.25%
Total	£173,720	£35.379m	0.65%	0.12%	0.25%

9. The Local Area Mortgage Scheme investment of £1m at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £202k at an average interest rate of 0.74%.
10. Table 2 below shows the investments and borrowing position at the end of December 2016.
11. The approved limits as set out in the Treasury Management Strategy report to Council 26th February 2016 within the Annual Investment Strategy were breached once during the first 3 months of 2016/17.
12. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and canal project. The authority holds £8m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Sep 2016 £'000	Dec 2016 £'000
Standard Life	3,062	2,005
Federated Prime Rate	3,984	3,999
Deutsche	-	2,866
Money Market Funds Total	7,046	8,870
Bank of Scotland	3,500	3,500
Lloyds	4,414	4,415
Lloyds Banking Group Total	7,914	7,915
NatWest	-	536
Royal Bank of Scotland	7	7
RBS Banking Group Total	7	543
Goldman Sachs	-	2,000
Standard Chartered	-	6,000
Santander	7,957	7,974
Barclays Bank Plc	1	1
Svenska Handelsbanken	10	-
UBS	2,000	2,000
Rabobank	-	2,000
Toronto Dominion	2,000	1,000
Nordea AB	1,000	-
Other Banks Total	12,968	20,975
Nationwide	6,000	-
Building Society Total	6,000	-
TOTAL INVESTMENTS	<u>£33,935</u>	<u>£38,303</u>
Local Authority	2,000	2,000
PWLB	104,717	104,717
TOTAL BORROWING	<u>£106,717</u>	<u>£106,717</u>

External Borrowing

13. The Council's revised Capital Financing Requirements (CFR) for 2016/17 is £114.381m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has borrowing of £106,717m as at 31

December 2016. During June two £1m PWLB loans were taken at rates of 2.65% and 2.51% for 47 and 50 years respectively. These rates are 0.85% and 1% lower than the preferential rates offered by the Government for HRA financing.

14. Compliance with Treasury and Prudential Limits

15. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators are outlined in the approved TMSS.
16. During the period to 31 December 2016 the Council breached the treasury limits on one occasion and otherwise complied with the Prudential Indicators set out in the Council’s TMSS and with the Council’s Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 FEBRUARY 2017

8

Report Title	TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18
Purpose of Report	<p>This report outlines the Council's prudential indicators for 2017/18 – 2019/20 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003:</p> <ul style="list-style-type: none"> • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the DCLG investment guidance. <p>It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2017/18.</p>
Decision(s)	<p>The Audit and Standards Committee RECOMMEND that Council:</p> <ol style="list-style-type: none"> 1. adopt the prudential indicators and limits for 2017/18 to 2019/20; 2. approve the treasury management strategy 2017/18, and the treasury prudential indicators; 3. approve the investment strategy 2017/18, and the detailed criteria for specified and non-specified investments; and 4. approve the Minimum Revenue Policy Statement 2017/18. <p>The Audit and Standards Committee gives the Accountancy Manager delegated authority to amend Table 1 and other interrelated tables should Council on 9 February approve an amended capital programme to that assumed in this report.</p>

Consultation and Feedback	Capita Asset Services (CAS)
Financial Implications and Risk Assessment	<p>This report sets out the expected activities of the Council's Treasury function for 2017/18 and recommends the investment instruments that are available to the council and the limits on these investments. The report also sets out the Council's borrowing strategy, limits and associated policies. The Council has £112.464m of borrowing (including internal borrowing) and the Council's capital spending plans increase the borrowing to £118.235m by 31 March 2020. It is worth noting that the Council's proposed capital programme proposes a further £4.150m of borrowing in 2020/21, but this is not reflected in the prudential indicators in this report due to the differing timescales covered by the Treasury Management Strategy and the Capital Programme.</p> <p>It will be important to consider carefully, in conjunction with our Treasury Management advisers, the optimum timing and nature of any new borrowing to minimise the cost to the Council. An under borrowing position has been assumed in the short term to minimise the impact of the difference between borrowing and investment rates. This position will be kept under review in conjunction with our Treasury Management advisers as the council's balances are utilised over the medium term.</p> <p>The Council makes investments during the year as part of its management of treasury balances. The investment strategy sets out the Council's investment priorities and the criteria used to make those investments to ensure security of capital, liquidity and a return on investment. The Treasury Management Strategy is designed to protect the Council's finances through limiting exposure to risk.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p>
Legal Implications	<p>This report has not been submitted to Legal Services prior to publication. The Legal Services Manager has advised that she will consider the report and update the Committee if there are any significant Legal Implications.</p>
Report Author	<p>Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk</p>

Chair of Committee	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: cllr.nigel.studdert-kennedy@stroud.gov.uk
Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2017/18 Council Tax, Housing rent levels and the capital programme.
Performance Management Follow Up	Quarterly, half-yearly and annual Treasury Management reports of actual compared with estimated prudential indicators for 2017/18. Any breaches of the Prudential Code will be reported to the Audit and Standards Committee. A breach of the Authorised Borrowing Limit would require immediate investigation and reporting to Council.
Background Papers	Treasury Management Policy Statement Treasury Management Practices - Main Principles Treasury Management Practices – Schedules The Prudential Code (2011) Treasury Management in the Public Services Guidance Notes for Local Authorities (2011) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2011).
Appendices	A. Investments at 16 December 2016 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation

Discussion

- Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to “have regard to” the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
- Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council’s policies for managing its investments and for giving priority to security and liquidity of investments.

3. Also, there is a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year and this is set out in paragraphs 2.6 – 2.10 of this report.
4. CIPFA Code of Practice on Treasury Management (revised November 2011) as adopted by this Council on 21 January 2010 requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:
 - Treasury Management Policy Statement. This is reviewed annually.
 - Treasury Management Practices (TMP) – Main Principles. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.
 - Treasury Management Practices – Schedules. These schedules set out the details of how the TMPs are put into effect by this Council. This document is revised annually to include the latest detailed procedural documents.
 - Counterparty Lending List and lending criteria. The list used by the Council is provided by Capita Asset Services (CAS), the Council's treasury advisors. A new list is provided weekly, and there are daily updates by email of any changes to ratings.
5. Other CIPFA requirements are:
 - a Mid-year Review Report and an Annual Report covering activities during the previous year;
 - delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Accountancy Manager, the Council's Section 151 officer;
 - delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2017/18

1. INTRODUCTION

- 1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 The 2017/18 strategy for the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, CAS. The strategy covers:
 - limits in force to mitigate the Council's treasury risk;
 - Prudential Indicators;
 - current treasury position;
 - borrowing requirement;
 - prospects for interest rates;
 - borrowing strategy;
 - policy on borrowing in advance of need;
 - investment strategy;
 - creditworthiness policy;
 - policy on use of external service providers;
 - Minimum Revenue Provision (MRP) statement;
 - treasury management scheme of delegation and section 151 role;
 - miscellaneous treasury issues.
- 1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
 - increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
 - any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2017/18 TO 2019/20

- 2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.
- 2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2015/16 £000 Actual	2016/17 £000 Estimate	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate
Community Services	1,287	1,583	389	250	250
Environment	836	1,560	30	320	12
Strategy & Resources	1,262	7,561	2,280	2,310	1,400
Budget Proposals	-	-	1,250	2,430	4,950
General Fund	3,385	10,704	3,949	5,310	6,612
HRA	18,080	12,413	12,290	7,171	6,574
Total	21,465	23,117	16,239	12,481	13,186

- 2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2015/16 £000 Actual	2016/17 £000 Estimate	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate
General Fund	3,385	10,704	3,949	5,310	6,612
HRA	18,080	12,413	12,290	7,171	6,574
Total	21,465	23,117	16,239	12,481	13,186
Financed by:					
Capital receipts	1,705	2,495	1,734	1,615	1,700
Capital grants	1,294	1,469	1,025	1,799	250
Capital reserves	1,220	2,477	860	1,745	2,012
Revenue	11,590	5,417	10,370	5,472	4,874
Net Financing Need for the year	5,656	11,259	2,250	1,850	4,350

- 2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The Council is asked to approve the CFR projections below:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2015/16 £000 Actual	2016/17 £000 Estimate	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate
CFR - General Fund	9,225	16,722	18,242	19,142	22,493
CFR - HRA	91,980	95,742	95,742	95,742	95,742
Total CFR	101,205	112,464	113,984	114,884	118,235
Movement in CFR	5,656	11,259	1,520	900	3,350

Movement in CFR represented by					
Net financing need for the year	5,656	11,259	2,250	1,850	4,350
Less MRP / VRP and other financing movements	-	-	-730	-950	-1,000
Movement in CFR	5,656	11,259	1,520	900	3,350

Minimum Revenue Provision (MRP) Policy Statement 2017/18

- 2.6 The Council's MRP policy statement for 2017/18 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP is only chargeable on General Fund outstanding capital liabilities.
- 2.7 An MRP charge is not currently required for the HRA. However, following on from the introduction of HRA self-financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. Therefore depreciation will be a real cost to the HRA from financial year 2017/18. The regulations have allowed for the Major Repairs Allowance to be used as a proxy for depreciation until 31 March 2017.
- 2.8 The government has protected the General Fund from any adverse MRP liability arising from HRA self-financing borrowing. Consequently, as there was no General Fund MRP liability prior to HRA Self-Financing, there has been no General Fund MRP liability until 2017/18. However, in 2017/18 recent borrowing in respect of The Pulse fitness extension, and borrowing for vehicles, premises and equipment for the Multi-Service contract with Ubico has generated an MRP liability for 2017/18 of £730k. Other new General Fund capital plans will result in an increasing MRP charge to provide for the repayment of debt in future years.
- 2.9 MRP will be charged under Option 3 of the DCLG guidance. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset. The Council is funding £1m of expenditure on The Pulse fitness extension by borrowing, also there is £8.4m of borrowing in respect of the Multi-Service Contract that

commenced in July 2016, and £1.75m for Littlecombe Business Units. A grant in relation to Brimscombe Port redevelopment of £2m would become repayable unless certain conditions are met, in which case it would also effectively become borrowing. Under Option 3, MRP will be chargeable in the year following the completion of the asset. So MRP will commence in 2017/18 and its duration will be linked to the asset funded and so will last from 5 to 30 years.

2.10 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: Core Funds and Expected Investments

Year end resources	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
Fund balances / reserves	22.268	21.172	16.154	14.069	10.530
Capital receipts	2.891	0.872	2.558	4.118	2.443
Provisions	0.734	0.734	0.734	0.734	0.734
Other	-1.877	0.500	0.500	0.500	0.500
Total Core funds	24.016	23.278	19.946	19.421	14.207
Working capital	1.696	0.500	0.500	0.500	0.500
Under (-) / over borrowing	3.512	-5.747	-6.267	-5.167	-5.518
Expected investments	29.224	18.031	14.179	14.754	9.189

Affordability of capital plans prudential indicators

2.11 Prudential indicators are required to assess the affordability of capital expenditure plans. These provide an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the indicators shown in tables 5, 6 and 7.

2.12 The indicator shown in table 5 shows the cost of capital expenditure plans as a ratio of the net revenue stream.

Table 5: Ratio of financing costs to net revenue stream

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	-2.14%	-0.76%	-0.13%	0.33%	1.29%
HRA	15.06%	15.65%	16.05%	16.29%	16.56%

2.13 The indicator shown in Table 6 shows estimates of the revenue costs arising from proposed changes to the 2016-17 to 2019-20 capital

programme recommended in this year's 'The Council's Capital Programme 2017-21' report compared to the Council's pre-existing approved commitments and plans.

Table 6: Incremental impact of capital investment decisions on council tax

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D	-£0.36	£0.00	£1.02	£0.41	£0.75

2.14 Similar to the council tax calculation, Table 7 indicator identifies the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Table 7: Estimates of the incremental impact of capital investment decisions on housing rent levels

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rents	£0.01	-£0.09	£0.05	£0.00	-£0.01

3. BORROWING

- 3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.
- 3.2 Table 8 shows the actual external debt (the treasury management operations), compared against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 8: Gross Debt compared with Capital Financing Requirement (CFR)

	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
External Debt					
Debt at 1 April	95.717	104.717	106.717	107.717	109.717
Expected change in debt	9.000	2.000	1.000	2.000	3.000
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	104.717	106.717	107.717	109.717	112.717
Capital Financing Requirement	101.205	112.464	113.984	114.884	118.235
Under / (-) over borrowing	-3.512	5.747	6.267	5.167	5.518

- 3.3 Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.
- 3.4 The Accountancy Manager reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2019-20. This view takes into account current commitments, existing plans, and the proposals in this budget report.
- 3.5 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 9: Operational Boundary

Operational Boundary	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
Debt	118	120	123	127
Other Long Term Liabilities	-	-	-	-
Total	118	120	123	127

- 3.6 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils. This power has not been used to date.
- 3.7 The Council is asked to approve the following Authorised Limit:

Table 10: Authorised Limit for External Debt

Authorised Limit	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
Debt	126	128	131	135
Other Long Term Liabilities	-	-	-	-
Total	126	128	131	135

- 3.8 A separate control on the Council's borrowing is a limit on the maximum HRA CFR introduced as part of HRA self-financing. This Council had some headroom to borrow over and above the self-financing settlement amount. It is forecast that the borrowing headroom is used up by 31 March 2017. No further borrowing by the HRA is permitted. This is set out in the next table:

Table 11: HRA Debt Limit

HRA Debt Limit	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
Actual HRA CFR	93.980	95.742	95.742	95.742	95.742
Limit	95.742	95.742	95.742	95.742	95.742
Headroom	1.762	-	-	-	-

- 3.9 CAS are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest CAS forecast as at November 2016.

Table 12: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Mar-17	0.25	1.60	2.90	2.70
Jun-17	0.25	1.60	2.90	2.70
Sep-17	0.25	1.60	2.90	2.70
Dec-17	0.25	1.60	3.00	2.80
Mar-18	0.25	1.70	3.00	2.80
Jun-18	0.25	1.70	3.00	2.80
Sep-18	0.25	1.70	3.10	2.90
Dec-18	0.25	1.80	3.10	2.90
Mar-19	0.25	1.80	3.20	3.00
Jun-19	0.50	1.90	3.20	3.00

Borrowing Strategy

- 3.10 Currently the Council has £106.7m of borrowing, compared with a Capital Financing Requirement (CFR) of £112.464m. This means that the capital borrowing need (the CFR), is greater than loan debt by £5.764m. The Council borrowed £1m of PWLB at a fixed rate of 2.51% for 50 years on 14 June 2016 and £1m on 21 June 2016 for 47 years at a fixed rate of 2.65% to take advantage of particularly low rates to fund part of the HRA borrowing requirement.
- 3.11 There is a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. The Council's HRA debt cap is £95.742m. This cap is the absolute limit for HRA borrowing under the Prudential Code, even if the Council considers further borrowing is affordable by the HRA. The 2016/17 HRA CFR is £95.742m, which means a borrowing 'headroom' has been fully utilised measured against the cap, as shown by table 11.
- 3.12 HRA capital plans can include no further borrowing in 2017/18 and subsequent years, whilst General Fund capital plans include borrowing of £8.45m up to 2019/20. The Accountancy Manager will decide on the length and type of borrowing, as well as the optimum time to borrow in consultation with CAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.
- 3.13 There is a £1m PWLB loan due for repayment in Mar 2018, and a £2m loan from Hampshire County Council due for repayment in February 2019. Given the short-term financial pressures on the HRA it is likely that these loans will be refinanced.

3.14 In the current year, an internal borrowing position in excess of £5m has been assumed to reduce the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2019/20. Although, with the MTFP forecasting the running down of balances, and possible future changes in interest rate forecasts the Accountancy Manager will keep this under review, and adjust the strategy as necessary in consultation with our Treasury adviser CAS.

Treasury management limits on activity

3.15 The purpose of treasury management limits are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits

3.16 The Council is asked to approve the following treasury indicators and limits:

Table 13: Limits on interest rate exposure

Interest Rate Exposures	2015/16 Upper	2016/17 Upper	2017/18 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates on net debt	25%	25%	25%

Table 14: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2017/18	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Table 15: Non-specified investment limit

Upper Limit for total principal sums invested for over 364 days	2015/16	2016/17	2017/18	2018/19	2019/20
Investments	£8m	£8m	£8m	£7m	£6m

Policy on borrowing in advance of need

- 3.17 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.3). Decisions to borrow will seek to ensure value for money and security of funds.
- 3.18 The Council will consider borrowing up to 12 months ahead of capital spend:
- If such capital spend is considered very likely to occur within 12 months;
 - treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
 - treasury advisers evaluate a net saving after assessing cost of carry;
 - a trigger rate(s) will be set by s151 officer in consultation with treasury advisers and treasury officers;
 - borrowing will be conducted in parcels – eg £4m could be split into 4 x £1m or 2 x £2m;

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;

3.19 The foregoing usual procedure will not prevent the s151 officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

3.20 Now that the Council has £106.7m of debt, the Accountancy Manager will keep under review opportunities for debt rescheduling. Debt rescheduling is reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 The Council will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance such as the March 2010 revision, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:

- 1) security of capital
- 2) liquidity of investments
- 3) rate of return

4.2 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. CAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on the Passport online portal.

4.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information

sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- 4.4 The intention of the strategy is to provide security of investment and minimisation of risk.
- 4.5 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of investments.
- 4.6 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
- 4.7 'Specified' and 'Non-Specified' Investments categories identify investment instruments for use during the financial year.

Specified Investments

- 4.8 All specified investments will be sterling denominated, with maturities up to 1 year (including any forward deal time), subject to CAS's colour coding rating system as set out in creditworthiness policy paragraphs 4.16 – 4.21.

Table 16: Specified Investments

Type of Investment	Minimum 'High' Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	£45m
Term deposits – local authorities	*	£8m
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
Money Market Funds	AAA	£4m per MMF & £12m total in MMFs
Enhanced Money Market Funds	AAA	£4m per MMF & £12m total in MMFs

Non-Specified Investments

4.9 All investments will be sterling denominated.

Table 17: Non-specified Investments - Maturities in excess of 1 year

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Property Funds	***	25 years	£3m
Corporate Bonds	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

4.10 Under the Local Authority Mortgage Scheme (LAMS) as per Cabinet report 15 December 2011 the Council has a 5-year deposit of £1m with Lloyds bank. This £1m LAMS investment is a service investment, rather than a treasury management investment, and is therefore outside of the Specified and Non-Specified investment categories where there is a 3-year limit for banks. The investment will be due for repayment in April 2017.

Investment Strategy

4.11 Cash flow forecast requirements and the outlook for short-term interest rates are important factors considered when making investments. During 2016 interest rates have continued to fall and base rate was cut to 0.25% from 0.5% following the referendum.

4.12 In 2017-18 the Council will continue to invest for the longest permitted duration with quality counterparties to maximise return without

compromising security. In particular instances the Accountancy Manager will authorise UK investments in excess of a year for example to take advantage of enhanced interest rates on Lloyds 366-day notice deposit. Otherwise, the length of investments permitted will vary if necessary in line CAS advice subject to the Council's 3-year upper limit.

Table 18: Investments maturing after the end of the current financial year.

Financial Institution	Amount £	Maturity	Rate
Rabobank, Netherlands	2,000,000	17/10/2017	0.64%
UBS	2,000,000	11/09/2017	0.67%
Goldman Sachs	2,000,000	01/06/2017	0.63%
Lloyds	2,000,000	22/05/2017	0.60%

- 4.13 Bank Rate was 0.5% from March 2009 until August 2016, when the rate was cut by the Monetary Policy Committee to 0.25%. Bank Rate is not forecast to commence rising until quarter 2 of 2019.
- 4.14 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.
- 4.15 Some preliminary work has been undertaken by CAS to assist the Council to select a property fund. The Council can invest up to £3m in a property fund. The Accountancy Manager may decide to take that process further forward during 2017/18.
- 4.16 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Creditworthiness policy

- 4.17 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.
- 4.18 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:
- **Yellow** 3 years
 - **Dark pink** 3 years for Enhanced money market funds with credit score of 1.25
 - **Light pink** 3 years for Enhanced money market funds with credit score of 1.5
 - **Purple** 2 years
 - **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
 - **Orange** 1 year
 - **Red** 6 months
 - **Green** 100 days
 - **No colour** not to be used
- 4.19 This creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 4.20 Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 4.21 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the CAS creditworthiness service.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via CAS's Passport website. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 4.22 The Council will not place sole reliance on the use of this external service. In addition this Council will use market data and market

information, and information on external support for banks to help support its decision making process.

Country limits

- 4.23 The following countries have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in CAS credit worthiness service.

AAA	AA+	AA	AA-
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	Hong Kong	France	
Denmark	USA	Qatar	
Germany		UK	
Luxemburg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

5. MISCELLANEOUS TREASURY ISSUES

Use of external service providers

- 5.1 Capita Asset Services (CAS) are the Council's treasury management advisers. However, responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers.
- 5.2 The treasury advice service contract was re-tendered through the Eastern Shires Purchasing Organisation (ESPO) Framework Agreement in 2016 and was awarded to CAS. This is a contract for two years with an option to extend for a further two years. The contract commenced 1 October 2016.

MiFID II

- 5.3 The second Markets in Financial Instruments Directive (MiFID II) is due to commence 3 January 2018. This may impact the range of investments available to the Council. It requires the Council to be classified as either 'retail' or 'professional', and this classification will be required to be made by each counterparty. It is possible that different counterparties may classify the Council differently. Some counterparties may classify the Council as retail, which would restrict the investment products available.

Member Training

- 5.4 The CIPFA Code requires the Section 151 officer to arrange the provision of adequate training for members. Member training was held on 6 July 2016 and 25 January 2017. Training is necessary to enable Audit and Standards Committee members to fulfil their role more effectively.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 FEBRUARY 2017

9

Report Title	ANNUAL GOVERNANCE STATEMENT 2015/16 IMPROVEMENT PLAN – PROGRESS REPORT
Purpose of Report	To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council, have been/are being addressed.
Decision(s)	The Committee RESOLVES that it has reviewed and considered the actions taken to address the governance improvement areas identified.
Consultation and Feedback	Corporate Team
Financial Implications and Risk Assessment	There are no direct financial costs arising from this report. David Stanley Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver an effective corporate governance framework prevents the Council in directing and controlling its resources effectively and efficiently, to enable the Council's objectives to be met.
Legal Implications	There aren't any legal implications to highlight. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Performance Management Follow Up	The Council's Annual Governance Statement 2016/17 is due to be presented to Audit and Standards Committee in June/July 2017, and will include a final progress report against the Annual Governance Statement 2015/16 Improvement Plan.

Background Papers/ Appendices	<p>Appendix A: Annual Governance Statement 2015/16 Improvement Plan – Progress Report</p> <p>Background papers: Annual Governance Statement 2015/16</p>
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1.0 Background

- 1.1 Governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 1.2 The Council is required by the Accounts and Audit Regulations 2015 to publish an Annual Governance Statement, in accordance with '*proper practices*' in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance. This approach includes how the Council has monitored the effectiveness of arrangements in year and on any planned changes to governance arrangements in the coming year. Through the Council's Constitution, the Audit and Standards Committee has responsibility for review and approval of the Statement.
- 1.3 Members approved the Council Annual Governance Statement 2015/16 (including the Annual Governance Statement 2015/16 Improvement Plan) at the 5th July 2016 Audit and Standards Committee meeting.
- 1.4 This report is the first update presented to Members on the Council's progress (detailed in **Appendix A**) against agreed actions from the Annual Governance Statement 2015/16 Improvement Plan.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

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Report Title	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.
Decisions(s)	The Committee RESOLVES to accept: <ul style="list-style-type: none"> • the progress against the Internal Audit Plan 2016/17; and • the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. David Stanley Acting S151 Officer Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
Legal Implications	This report is provided for information, as such there are no legal implications to highlight to the committee. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk

Report Author	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	In accordance with the Public Sector Internal Audit Standards (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2016/17. These are scheduled to be presented to the Audit and Standards Committee at the April 2017 and July 2017 meetings.
Background Papers/ Appendices	Appendix A – Internal Audit activity progress report 2016/17. Background papers: <ul style="list-style-type: none"> ➤ Internal Audit Plan 2016/17; ➤ PSIAS; and the ➤ CIPFA Local Government Application Note for the UK PSIAS.

1.0 Background

1.1 Members approved the Internal Audit Plan 2016/17 at the 5th April 2016 Audit and Standards Committee meeting. In accordance with the Public Sector Internal Audit Standards 2016 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

1.2 The Internal Audit activity progress report 2016/17 at **Appendix A** summarises:

- The progress against the 2016/17 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period October 2016 to December 2016; and
- Special investigations/counter fraud activity.