Lewes District Council

To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Telscombe Room, Southover House, Southover Road, Lewes** on **Monday, 26 January 2015** at **15:30** which you are requested to attend.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

20/01/2015

Catherine Knight
Assistant Director - Corporate Services

Agenda

1 Minutes
To approve the Minutes of the meeting held on 1 December 2014 (copy previously circulated)

2 Apologies for Absence/Declaration of Substitute Members

3 Declarations of Interest
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct

4 Urgent Items
Items which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972

5 Written Questions from Councillors
To deal with written questions from councillors pursuant to Council

Procedure Rule 11.3 (page D8 of the Constitution)

6 Interim Report on the Council's Systems of Internal Control 2014-2015
To receive the Report of the Head of Audit and Performance (Report No 11/15 page 3)

7 Lewes District Council - Code of Corporate Governance Update
To receive the Report of the Head of Audit and Performance (Report No 12/15 page 13)

8 Treasury Management Activity
To consider the Report of the Director of Finance (Report No 13/15 page 18)

9 Annual Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018
To receive the Report of the Director of Finance (Report No 14/15)

10 Date of Next Meeting
A meeting has been scheduled for Monday, 16 March 2015 at 3.30pm in the Ditchling Room, Southover House, Southover Road, Lewes

For further information about items appearing on this Agenda, please contact Zoe Downton at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600

Distribution: Councillors I Eiloart (Chair), M P Chartier, S J Gauntlett, J V Harris, I A Nicholson, E E J Russell and C Sugarman

Appointed Substitute Councillor:

Councillor B Allen

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer at zoe.downton@lewes.gov.uk.

Substitutes should at first be sought from the appointed list above. Other councillors may substitute on the Audit and Standards Committee providing they are not a member of the Cabinet)

Agenda Item No:	**6**	**Report No:**	**11/15**
Report Title:	**Interim Report on the Council's Systems of Internal Control 2014/15**		
Report To:	**Audit and Standards Committee**	**Date: 26 January 2015**	
Ward(s) Affected:	**All**		
Report By:	**Head of Audit and Performance**		

Contact Officer
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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first nine months of 2014/15, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

1 To note that the overall standards of internal control were satisfactory during the first nine months of 2014/15 (see Section 3).

2 To note the results of the planned review of the Audit Plan 2014/15 (see Section 7).

Reasons for Recommendations

1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

Information

2 Background

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that apply from 1 April 2013. The Head of Audit and Performance (HAP) advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.

2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAP on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report will contain an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

3 Internal Control Environment at Lewes District Council

3.1 The Annual Report on the Council's Systems of Internal Control for 2013/14 included the opinion of HAP that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the nine months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2014/15

4.1 This section of the report summarises the work undertaken by Internal Audit during the first nine months of the year, compared to the annual plan that was agreed by the Audit and Standards Committee in March 2014. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.

4.2 Table 1 shows that a total of 523 audit days have been undertaken compared to 491 planned. The variance of 32 days is largely due to the investigation carried out by the HAP (see paragraph 4.13) that was not planned at the start of the year. It is estimated that the audit days will be closer to plan by the year end.

4.3 As was anticipated when the Audit Plan 2014/15 was prepared, the ongoing restructuring of the Council has necessitated a review of the plan. The significant additional work required for the Benefits subsidy claim (see 4.5) is another factor in the need to review the plan and reallocate resources. The results of this review are given at Section 7.

Table 1: Plan audit days compared to actual audit days for April to December 2014

Audit Area	Actual audit days for the year 2013/14	Plan audit days for the year 2014/15	Actual audit days to date	Pro rata plan audit days to date
Main Systems	260	285	259	
Central Systems	31	65	21	
Departmental Systems	178	100	42	
Performance and Management Scrutiny	64	40	38	
Computer Audit	11	65	27	
Environmental Audit	65	-	-	
Management Responsibilities/Unplanned Audits	132	98	136	
Total	741	653	523	491

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

4.4 *Main Systems:* The initial work was on completing the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2013/14. The audit did not identify any significant control issues that would have an impact on the Council’s main accounts. A summary report has been finally issued.

4.5 The initial work on behalf of BDO to test the Council’s subsidy claims for Benefits for 2013/14 was completed to plan. The work identified errors in the processing of claims and, at the request of BDO, this required additional testing to determine the extent and impact of the issues noted. During October 2014, BDO checks identified further issues that required additional testing, and this process of further check and testing has been ongoing. As a result, it was not possible to submit the claim by the due date of 31 November 2014. After further quality tests by BDO, the claim is expected to be signed off and submitted by the end of January 2015. As a result of the issues noted, BDO are likely to issue a letter of qualification. A summary report by Internal Audit on the Benefits subsidy claim work is at the draft stage.

4.6 It has not been necessary to carry out the anticipated work to verify the Council’s subsidy claim for NDR. This follows a decision by DCLG and the Audit Commission that there need not be verification of the NDR claim return for 2013/14.

4.7 *Central Systems:* An initial outline study for the audit of Business Continuity Planning resulted in a summary report being issued to the Director of Corporate Services; an updated Business Continuity Plan for the Council’s services was issued in December 2014. A final report has been issued for the audit of Safeguarding.

4.8 *Departmental Systems:* Final reports have been issued for the audits of Cemeteries and Planning and Development Control, and an audit of Building Control is at the draft report stage. An audit of Housing Management is at the planning stage. Internal Audit is reviewing selected aspects of the procedures for the maintenance and repair of Council housing.

4.9 *Performance and Management Scrutiny:* A final report was issued for the audit of Ethics. Internal Audit has been performing a quality assurance role for the Regeneration and Enterprise Project Board that is managing four regeneration projects, and for the project to develop the North Street Quarter of Lewes. Internal Audit is examining the internal control aspects of the project to develop new processes for the delivery of Council services.

4.10 *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems, and a report on the audit of IT Security has been finally issued.

4.11 *Management Responsibilities/Unplanned Audits:* This category provides resources for the support for the Audit and Standards Committee, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.

4.12 Internal Audit has been coordinating the Council’s preparations for the 2014/15 NFI data matching exercise which is run by the Audit Commission. The base data was forwarded to the Audit Commission in October 2014 and the investigation of any matches will begin in February 2015.

4.13 At the request of the Chief Executive, Internal Audit has investigated the relationship between the Council and Seaford and District Constitutional Club in respect of possible development opportunities at the site. A final summary report has been issued and was presented to the December 2014 meeting of the Committee.

5 Follow up of Audit Recommendations

5.1 All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2014/15 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the June 2014 meeting of the Committee.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

6.1 The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2013/14 were reported to the June 2014 meeting of the Audit and Standards Committee. The results enabled the HAP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

6.2 Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee, and the corresponding results for 2013/14 were reported to the September 2014 meeting of the Committee.

7 Review of 2014/15 Audit Plan

7.1 As part of the report to the March 2014 meeting of the Committee that detailed the Strategic Audit Plan, the HAP advised that there would be a six month review of the Audit Plan for 2014/15 to assess whether any significant changes are necessary in response to the ongoing restructuring of the Council.

7.2 That review has taken place at the nine month stage, and the results of the review are now presented to the Committee. The review was held back to take account of a range of issues, in particular the ongoing restructuring and the impact of the significant extra work on the Benefits subsidy claim with BDO. The HAP plans the following adaptations to the programme of work in the Audit Plan for 2014/15.

- The issue of the updated Business Continuity Plan in December 2014 means that further audit work is not necessary during 2014/15. The next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Communications that was begun in 2013/14 was halted in agreement with the Director of Business Strategy and Development in recognition of the major restructuring that was taking place in the department. The restructuring has been ongoing during 2014/15 and further audit work is not yet appropriate. The next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Estates Management was halted to enable resources to be directed to the investigation requested by the Chief Executive. A summary of key conclusions on Estates Management is being prepared to inform the ongoing restructuring of the Facilities function. No further work is planned in 2014/15 and the next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Trade Waste reached the fieldwork stage before being suspended because resources had to be re-assigned to the completion of the work on the HB subsidy claim. There is now no time to reschedule this audit in 2014/15 because of higher priority work on the key financial systems, and the audit of Trade Waste will be a priority task in the programme of audits for early 2015/16.

- The planned audit of Internet/Intranet has been postponed because of the ongoing work on the redesign of the Council's website. The next audit of this subject will be scheduled for a future date in the audit cycle.

Other audits in the programme for 2014/15 that are planned or underway will continue to a normal conclusion.

8 Combatting Fraud and Corruption

National reporting

8.1 The Annual Report on the Council's work to combat Fraud and Corruption 2013/14 was presented to the September 2014 meeting of the Committee. The report advised that the numbers and values of the fraud cases at LDC had been submitted to the Audit Commission as part of the fraud and corruption survey that all Local Authorities are required to complete. The results of the national survey will be published in an Audit Commission annual report on fraud and corruption in local government called 'Protecting the Public Purse.'

8.2 The Audit Commission report 'Protecting the Public Purse' for 2012/13 compared performance by differences types of local authority across a range of fraud types. The HAP has been examining the report to determine the scope for possible additional controls or preventative measures where these would be justified. The major outcomes of this study are outlined below.

Local developments

8.3 As part of the Council's response to the Audit Commission report 'Protecting the Public Purse' for 2012/13, Internal Audit and Housing Services are now represented on the Sussex Tenancy Fraud Forum (TFF). TFF is a body that enables information sharing and joint initiatives with neighbouring authorities in both East and West Sussex to combat the various aspects of tenancy fraud.

8.4 There had been some uncertainty over the future of the Benefit Fraud Investigations Team. CMT agreed a business case for the Investigations Team to work as part of Internal Audit from 1 November 2014. The team is now working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. The team will maintain its membership of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.

8.5 In response to offers of funding from DCLG for counter fraud initiatives, a sub group of six authorities within ESFOG submitted a successful funding bid. DCLG award the group £365,000 for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex. The Hub will be managed by officers at Eastbourne BC with input from ESFOG partners, and the initial stages will see a programme of standardised training and planning, and the introduction of a case management system. Work on cases in the separate authorities will take priority until there is a fully coordinated Hub joint exercise.

Investigations Team

8.6 As was advised to the December 2014 meeting of the Committee, reports on the Council's Systems of Internal Control will include a new section dealing with the work of the Investigations Team. This is the first of these sections.

8.7 Since 1 November 2014, the work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference and obtaining best practice guidance on tenancy fraud from other authorities and private sector organisations. Six suspected cases of tenancy fraud have been referred to the team and are being investigated.

8.8 The team has continued to receive referrals of suspected fraud in respect of the CT Reduction Scheme (CTRS), and investigation of 25 cases is underway. NDR is the next priority area for the team, based upon some initial research and a small pilot study. Training in counter fraud work for NDR will be coordinated with the Hub.

8.9 Internal Audit has in place an agreement with DWP for the future management of cases of HB fraud. The major work on each case will be the responsibility of the national Single Fraud Investigation Service (SFIS) but LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. A total of 40 cases have been passed to SFIS and 12 information requests have been actioned.

9 Risk Management

9.1 Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.

9.2 The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.

9.3 In response to the Government's national deficit reduction plan, the Corporate Management Team (CMT) put in place a phased programme to make savings in the Council's budgets. The programme commenced in 2011/12 and has achieved each of its annual savings targets. The savings target for 2014/15 is £596,000 and this has been achieved, primarily from the first phase of the restructuring programme. The savings target is kept under review (so that it can reflect the latest projections of Government funding, inflation forecasts, etc.) and reported regularly to Cabinet.

9.4 The most recent report to Cabinet was in November 2014, and the report indicated a total savings target for the period 2015/16 to 2019/20 of £2,604,000. Of this, £550,000 is to be delivered next year, with £520,000 already identified. The source of savings will continue to come from structural change rather than incremental change. A further review of the savings target will take place at the February 2015 Cabinet meeting. The Head of Audit and Performance has reviewed with CMT the impact on the control environment of the savings achieved so far, and has obtained assurance that there has been no adverse effect on the operation of controls. This exercise will be ongoing while the programme of savings continues.

9.5 The Annual Report on Risk Management was presented to Cabinet at its July 2013 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead. The next report will be presented to the Cabinet in March 2015.

10 System of management assurance

10.1 The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2013/14. A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer confirmed that there were no significant governance issues for the Council in 2013/14. Nothing has arisen in the first nine months of the financial year to change these assessments.

11 Corporate governance

11.1 In June 2013, the HAP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the June 2013 meeting of the Committee. The Code has been reviewed and the results are presented separately to this meeting of the Committee.

11.2 The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2013/14 was reported to the September 2014 meeting of the Committee.

12 External assurance

12.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

12.2 Annual Audit Letter for 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year. The letter confirms that:

- BDO issued an unqualified true and fair opinion on the financial statements for 2013/14.
- BDO identified three misstatements in relation to revaluations of land and buildings and the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements. As these corrections relate to capital transactions and valuations there was no impact on the General Fund or HRA balance.
- BDO did not identify any significant deficiencies in internal controls but, working with Internal Audit, BDO observed instances where purchase orders were either in excess of the officer's formal authorisation limits or were placed by officers not on the authorised signatory list. Management has agreed to review and strengthen this control.
- BDO were satisfied that the Council has robust systems and processes to manage financial risks and opportunities effectively and to secure a stable financial position that enables it to continue to operate for the foreseeable future, and BDO therefore issued an unqualified value for money conclusion.
- BDO noted that the Council maintains healthy levels of earmarked reserves and balances, and Members have agreed a policy to use reserves to fund investments and non-recurring expenditure.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the

audit of the financial statements and complies with '*Delivering Good Governance in Local Government' (CIPFA/Solace).*

- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for audit and they were required only to review the total amounts in the Data Collection Tool for property, plant and equipment and for the net pension liability. BDO reported that the values in the Data Collection Tool were consistent with the audited financial statements.
- The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with these likely to arise from the continued organisational development process and Programme Nexus.
- BDO have completed their review of the Housing Pooled Capital Receipts 2013/14 and have no matters to report.
- BDO reported on the results of the most recent grant claims and returns certification report that covered three returns for 2012/13 amounting to £67 million. The Housing Pooled Capital Receipts return and National Non Domestic Rates returns were certified without amendment or qualification. The BDO audit of the Housing and Council Tax Benefits subsidy claim for 2012/13 found a number of errors in processing. Following further discussion and the provision of additional supporting information by the Council, DWP amended its assessment of the impact on the claim and made a deduction of approximately £4,000 from the final settlement.
- When the Annual Audit Letter was issued (late October 2014) the BDO work on the Housing Benefits subsidy claim for 2013/14 was still in progress. The results from this work will be reported to the Committee at the first meeting after submission of the claim.

13 Financial Appraisal

13.1 There are no additional financial implications from this report.

14 Sustainability Implications

14.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

15 Risk Management Implications

15.1 If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

16 Legal Implications

16.1 There are no legal implications arising from this report.

17 Equality Screening

17.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

18 Background Papers

18.1 Annual Audit Plan 2014/15 that was presented to the Audit and Standards Committee on 17 March 2014.

19 Appendices

19.1 Appendix A - Statement of Internal Audit work and key issues.

19.2 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A

Statement of Internal Audit work and key issues

Audit report: IT Security – Compliance with Public Sector Network (PSN) standards

Date of final issue: 23 January 2015

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control covering the IT security arrangements that are necessary to achieve PSN compliance. On the whole, compliance is soundly based, with issues from the previous verification process and penetration tests having been addressed, and PSN considerations are taken into account for new IT developments.

However, there are a small number of issues that indicate there is scope to strengthen the ways in which the PSN submission is prepared and checked. Internal Audit believes that the need to focus time and resources on the major project to update the Council's IT infrastructure is likely to have impacted on compiling the PSN submission. There is also the point that PSN standards and controls are very exacting, and may not be entirely necessary for all the uses made of PSN by the Council. The report contains five recommendations.

Main points:

- The Council's PSN submission for 2104 achieved Compliance Certification, without which the Council would not have been able to connect to the secure government network. The audit has noted instances where the answers and explanations given in the Council's submission were not entirely accurate or might not stand up to a more rigorous compliance review by the PSNA. The areas of non-compliance are not necessarily significant but they could place the Council's PSN certification at risk if noted by the PSNA. The Council may decide that this risk is not sufficient to justify some of the additional controls that would be necessary to meet full compliance with PSN standards.
- Not all the 46 Council officers who currently have access to PSN services will have been subject to the necessary security vetting checks as required by PSN, and there is no standing arrangement for new PSN users to be vetted to the required standard. To achieve this standard would require the use of Disclosure Scotland for most staff using the PSN network, and this could prove an onerous and expensive task. The Council could take a pragmatic approach and put in place controls that ensure the required vetting is applied to PSN users over time.
- The Council has met one of the key conditions in respect of Information Risk Management – the identification of a named responsible officer. However, it is not clear that the roles, responsibilities and supporting framework that would represent a security governance structure that is fully PSN compliant are present at the Council. The Council is undergoing a fundamental restructuring against a backdrop of challenging savings requirements. As a result, it is unlikely the Council will be in a position to assign all the roles and responsibilities required by PSN in the short term.

Agenda Item No:	**7**	**Report No:**	**12/15**
Report Title:	**Lewes District Council – Code of Corporate Governance Update**		
Report To:	**Audit and Standards Committee**	**Date: 26 January 2015**	
Ward(s) Affected:	**All**		
Report By:	**Head of Audit and Performance**		
Contact Officer(s):	**Name(s):David Heath** **Post Titles(s): Head of Audit and Performance** **Email (s): david.heath@lewes.gov.uk** **Tel No(s): 01273 484157**		

Purpose of Report:

To inform Councillors of the update of the Lewes District Council Code of Corporate Governance and progress on issues to be addressed.

Officers Recommendation(s):

1 To receive and consider the report.

Reasons for Recommendations

1 To ensure the Council follows best practice for corporate governance as set out in the Chartered Institute of Public Finance and Accountancy/ Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework, and has effective arrangements in place.

Information

2 Background

2.1 Lewes District Council recognises the importance of effective corporate governance so that local communities can place trust in the way that the Council carries out its duties. Corporate governance for councils in simple terms is ensuring they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2 At the Audit Committee meeting of 17 March 2008 Councillors approved the Council's Code of Corporate Governance to meet the requirements of the CIPFA/SOLACE Framework, "Delivering Good Governance in Local Government". The local Code is made available to the public on the Council's website and can be found at the following link http://www.lewes.gov.uk/council/3748.asp

3 Lewes District Council Code of Corporate Governance

3.1 The Local Code brings together all of the Council's corporate governance arrangements in one place and identifies a number of issues to be addressed that will improve the Council's approach. Each financial year the Head of Audit and Performance in consultation with key officers reviews the Code to ensure that it remains robust and reflects the arrangements at the Council, and identifies any issues that need to be further developed.

3.2 The Code has the following six core principles:

- Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and risk management.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

3.3 Appendix A provides an extract of the Code to illustrate the structure of the document. It shows:

- The individual requirements of the local code.
- Systems/processes/documentation demonstrating compliance.
- Responsibility for monitoring/review.
- Issues to be addressed, target date where known and officer responsible.

4 Review of the Local Code

4.1 The review has shown the Council continues to have satisfactory arrangements in place for corporate governance, and these are embodied in a range of documents and systems that are already in place at the Council, or are planned. For example:

- Council’s Constitution
- Council Plan
- Medium Term Financial Strategy
- Whistleblowing Policy
- Data Quality Strategy

4.2 A small number of updates have been made to the Code to reflect developments in the Council's governance arrangements. The updated Code can be found at the following link; http://www.lewes.gov.uk/council/3748.asp

4.3 Appendix B identifies the progress that has been made against the issues to be addressed that were identified in July 2013 when it was last reviewed.

5 Financial Appraisal

5.1 There are no additional financial implications from this report.

6 Risk Management Implications

6.1 Failure to maintain proper corporate governance arrangements can reduce the likelihood of the Council meeting its aims and objectives and attract criticism from the Council's stakeholders and the Council's external auditor. Maintenance of a local Code of Corporate Governance which concords with best practice and is regularly reviewed will ensure that the corporate governance arrangements remain effective.

7 Sustainability Implications

7.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

8 Legal Implications

8.1 There are no legal implications arising from the report.

9 Equality Screening

9.1 I have given due regard to equalities issues and, as this is an internal monitoring report screening for equalities is not required.

10 Background Papers

10.1 None.

11 Appendices

11.1 Appendix A: Extract from the Lewes District Council Code of Corporate Governance.

11.2 Appendix B: Progress that has been made against the issues to be addressed in the Code that were identified in July 2013.

Appendix A: Extract from the Lewes District Council Code of Corporate Governance.

LEWES DISTRICT COUNCIL
LOCAL CODE OF CORPORATE GOVERNANCE

CORE PRINCIPLE 1: Focusing on the purpose of Lewes District Council and on outcomes for the community and creating and implementing a vision for the local area

	Our local code will reflect the requirement to:	Systems / processes/ documentation demonstrating compliance	Responsibility for monitoring/review	Issues to be addressed, target date and officer responsible
1.1	**Supporting Principle:** Lewes District Council will exercise strategic leadership by developing and clearly communicating the Council's purpose and vision and its intended outcomes for citizens and service users			
a)	Develop and promote the Council's purpose and vision	• Council Plan • Council Tax Leaflet • District News • Website • Internal communications to staff • Hosted events	• Council • Cabinet • Corporate Management Team	Council Plan published by July 2015 **Head of Business Strategy and Performance**
b)	Review on a regular basis the Council's vision for the local area and its impact on the Council's governance arrangements.	• Review following 2015 elections • Annual review as part of business planning process • Lewes District Council Local Code of Corporate Governance	• Cabinet • Corporate Management Team • Reviewed annually by the Head of Audit and Performance and monitored by the Audit and Standards Committee through an annual update report	Review of the Council's vision following 2015 elections **Head of Business Strategy and Performance**
c)	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.	• Partnership agreements with associated governance arrangements • Lewes District Council Local Code of Corporate Governance • Guidance for partnership working • Project Initiation Documents • Corporate Management Team sign off for new projects	• Cabinet • Corporate Management Team • Partnership Lead Officers • Head of Audit and Performance • Project Lead Officers	Review of partnership agreements to be undertaken by March 2015 **Head of Business Strategy and Performance**

Progress that has been made against the issues to be addressed in the Code identified in July 2013

Requirement of Local Code	Issue to be addressed and target date	Progress against target
CORE PRINCIPLE 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.		
Ensure that the Council's leadership creates a climate of openness, support and respect for the organisation.	Staff survey undertaken and results analysed by end of September 2013 - **Head of Human Resources**	Staff survey was undertaken in November 2013 **(G)**
Agree a set of values for partnerships against which decision making and actions can be judged.	Updating of partnership guidance – September 2013. **Head of Audit and Performance**	A desktop review of the guidance was undertaken in December 2013. This identified the need to adapt the guidance to reflect the new types of partnership arrangements that the Council is entering into. The role of oversight of partnerships has subsequently transferred to the Director of Business Strategy and Development in 2014. A full review of the guidance is due to be completed by March 2015 **(A)**

Green (G)	Completed	Amber (A)	Underway	Red(R)	Delayed

Agenda Item No:	**8**	**Report No:**	**13/15**
Report Title:	**Treasury Management Activity**		
Report To:	**Audit and Standards Committee**	**Date: 26 January 2015**	
Ward(s) Affected:	**All**		
Report By:	**Director of Finance**		

Contact Officer(s)-

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Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 November and 31 December 2014 has been in accordance with the approved Treasury Strategy for that period.

2. To note the contents of this report.

Reasons for Recommendations

1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet.

2 Treasury Management Activity

2.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

2.2 The timetable for reporting Treasury Management activity in 2014/2015 is shown in the table overleaf. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
26 January 2015	1 November to 31 December 2014
16 March 2015	1 January to 28 February 2015

2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 2014 and identifies the long-term and short-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. The minimum ratings required for deposits made are long term minimum A (Fitch) and short term F1 (Fitch).

All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
220714	Barclays Bank plc	13 Aug 14	13 Aug 15	365	1,000,000	1.000	A1	F1
220914	Nationwide Building Society	01 Sep 14	02 Mar 15	182	1,000,000	0.640	A1	F1
221014	Nationwide Building Society	01 Sep 14	02 Feb 15	154	1,000,000	0.580	A1	F1
221614	Cornwall County Council	07 Oct 14	12 Feb 15	128	2,000,000	0.430	* not applicable	
222214	Gloucester City Council	15 Dec 14	02 Jan 15	18	2,000,000	0.450	* not applicable	
	Total				**7,000,000**			

*UK Government body and therefore not subject to credit rating

2.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 November 2014, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £4m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
222014	Debt Management Office	07 Nov 14	10 Nov 14	03	1,000,000	0.250	* not applicable	
221914	Debt Management Office	03 Nov 14	19 Nov 14	16	2,000,000	0.250	* not applicable	
222114	Debt Management Office	20 Nov 14	21 Nov 14	01	1,000,000	0.250	* not applicable	
	Total				4,000,000			

*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits **held** in the period 1 November 2014 to 31 December 2014 was 0.74%, above the average bank base rate for the period of 0.50%. Those **made** during the period averaged 0.34%.

2.5 Use of Interest Bearing Accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2,800,000 generating interest of approximately £1,300.

	Balance at 31 Aug '14 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	1,700	1,704	0.20
Lloyds Bank Corporate Account	1,732	1,144	0.40

Under the terms of its agreement with Lloyds Bank, the Council has a single account, which is interest bearing. This enables day to day treasury operations to be streamlined to a degree.

2.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown overleaf. The approved Investment Strategy allows a maximum investment of £1m in each fund, and at no time was this limit exceeded.

	Balance at 31 Dec '14 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	1,000	795	0.57
Deutsche Managed Sterling Fund	1,000	716	0.55

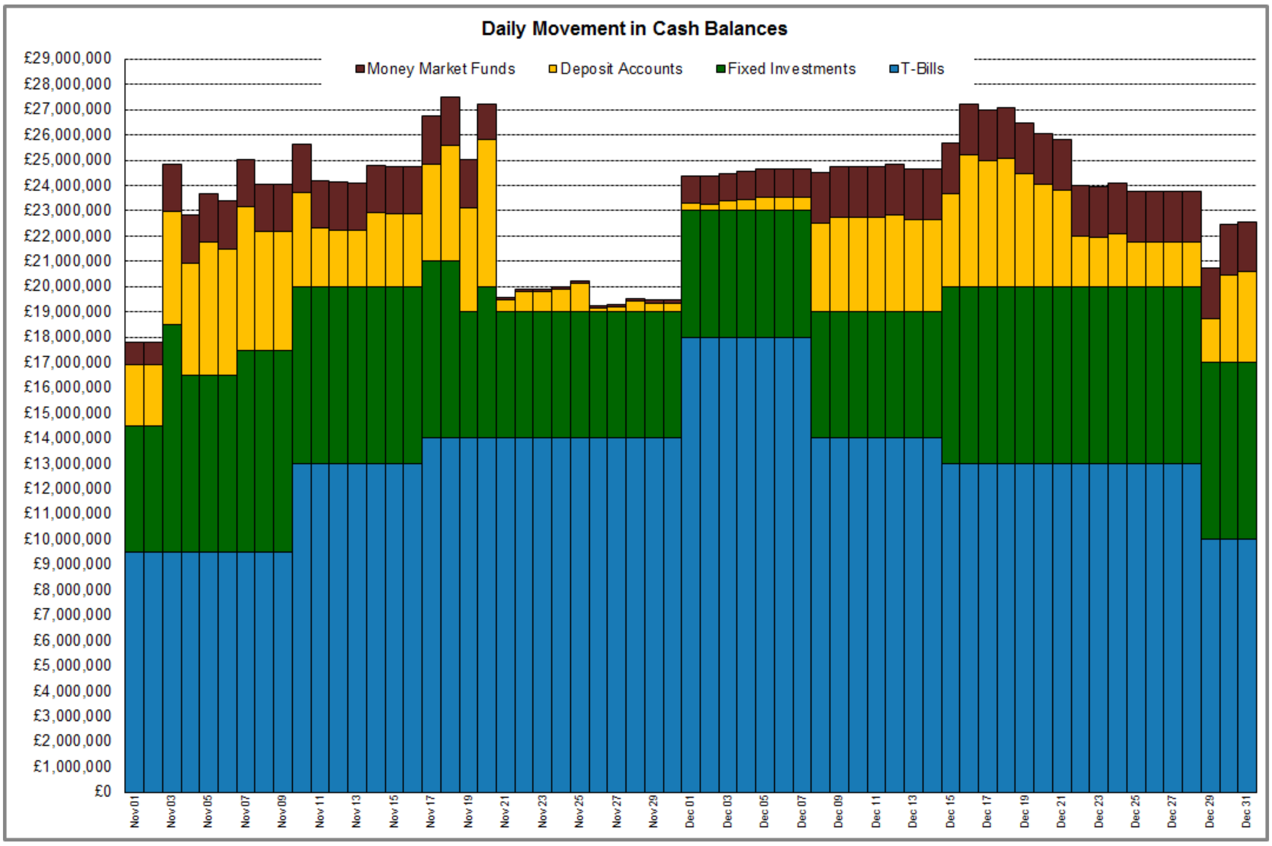
2.7 Purchase of Treasury Bills (T-Bills)

The table overleaf shows the T-Bills held at 31 December 2014 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity	Purchased in period	Purchase date	£'000	Return %
Held at 31 December 2014					
UK Treasury Bill 0%	30 Mar 15		29 Sep 14	2,000	0.570
UK Treasury Bill 0%	02 Feb 15		03 Nov 14	1,000	0.380
UK Treasury Bill 0%	09 Feb 15	√	10 Nov 14	2,000	0.430
UK Treasury Bill 0%	16 Feb 15	√	17 Nov 14	2,000	0.427
UK Treasury Bill 0%	02 Mar 15	√	01 Dec 14	1,000	0.415
UK Treasury Bill 0%	02 Mar 15	√	01 Dec 14	1,000	0.419
UK Treasury Bill 0%	12 Jan 15	√	15 Dec 14	1,000	0.348
Matured since last report					
UK Treasury Bill 0%	10 Nov 14		11 Aug 14	2,000	0.410
UK Treasury Bill 0%	10 Nov 14		13 Oct 14	491	0.360
UK Treasury Bill 0%	17 Nov 14	√	20 Oct 14	3,000	0.350
UK Treasury Bill 0%	01 Dec 14	√	03 Nov 14	1,000	0.310
UK Treasury Bill 0%	08 Dec 14	√	10 Nov 14	2,000	0.350
UK Treasury Bill 0%	08 Dec 14	√	10 Nov 14	2,000	0.330
UK Treasury Bill 0%	15 Dec 14	√	17 Nov 14	2,000	0.379
UK Treasury Bill 0%	29 Dec 14	√	01 Dec 14	1,000	0.419
UK Treasury Bill 0%	29 Dec 14	√	01 Dec 14	1,000	0.398
UK Treasury Bill 0%	29 Dec 14	√	01 Dec 14	1,000	0.438

2.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 November to 31 December 2014. It shows the total sums invested each day as either Fixed Term deposits, T-Bills, amounts held in Deposit accounts or MMF's.



2.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. No temporary borrowing has been undertaken.

Financial Implications

3 All relevant implications are referred to in the above paragraphs.

Sustainability Implications

4 The Sustainability Screening process for this Report took place in January 2015. There are no implications for sustainability.

Risk Management Implications

5 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

Equality Screening

6 The Equality Screening process for this Report took place in January 2015. There are no implications for equality.

Legal Implications

7 None arising from this report.

Background Papers - Treasury Strategy Statement
http://www.lewes.gov.uk/council/20987.asp

Agenda Item No:	**9**	**Report No:**	**14/15**
Report Title:	**Annual Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018**		
Report To:	**Audit and Standards Committee**	**Date: 26 January 2015**	
Ward(s) Affected:	**All**		
Report By:	**John Magness, Director of Finance**		
Contact Officer(s)-			

Name(s): **Stephen Jump**
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Purpose of Report:

To present the draft Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018.

Officers Recommendation:

1. To receive the draft Treasury Management Statement and Investment Strategy 2015/2016 to 2017/2018 and make comments to Cabinet as the Committee sees fit.

2. To note the contents of this report.

Reasons for Recommendations

1 The Council has adopted the CIPFA Code of Practice on Treasury Management. In accordance with the Code of Practice, the Cabinet approves an updated Annual Treasury Strategy Statement before the start of each financial year. This includes an Investment Strategy for the year ahead (which Government guidance notes should be adopted by full Council) as well as 'Prudential Indicators' which are required to be set in order to comply with the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code).

2 It is appropriate for the Audit and Standards Committee to review and comment on the draft Strategy before it is approved by Cabinet as part of the overall budget cycle, rather than to carry out this function after the Strategy has been formally adopted.

Information

1 Purpose of the Strategy Statement

1.1 The draft Strategy Statement is attached at Appendix 1. It sets out the background to the Council's treasury management activity both in terms of the wider economy and the Council's own current and projected financial position. It sets out the approach which will be taken to borrowing and the investment of cash balances. It explains the risks which are inherent in treasury management and how these are to be mitigated. The Strategy Statement specifies the Prudential Indicators which the Council is to set in order to meet the requirements of the Prudential Code; contains an 'MRP Statement' which defines the approach that the Council will take to make prudent provision for debt redemption; and establishes the policy for the separate management of General Fund and Housing Revenue Account borrowing.

1.2 The content of the draft Strategy Statement follows the requirements of CIPFA's revised Code of Practice which was published in November 2011 and has been prepared with the support of Arlingclose, the Council's Treasury advisers.

2 2015/2016 Strategy Statement in context

2.1 As explained to Councillors by the Council's Treasury advisors, Arlingclose, at a briefing meeting held in September 2014, the transposition of two European Union directives into UK legislation will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The combined effect is to leave public authorities and financial organisations as the only senior creditors likely to incur losses in a failing bank after July 2015. The credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options.

2.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Strategy enables the Council to diversify into more secure and/or higher yielding asset classes during 2015/2016. Diversification is of increasing importance in the context of the Council's reserves and balances reducing as they are called on to support the Council's organisational change programme. With diminishing reserves, the impact of a single counterparty default would be greater. This diversification represents a substantial change in strategy over the coming year.

3 Proposed Changes to Investment Strategy

3.1 The current minimum credit rating for investments (long-term 'A') will remain in place unless the credit rating agencies downgrade the ratings of major UK banks in response to the bail-in provisions of the EU Bank Recovery and Resolution Directive. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive. Many UK banks have standalone ratings in the 'BBB' category, with uplifts for potential government support taking them into the 'A' category.

3.2 In Arlingclose's view there is therefore a realistic risk that some major UK banks' credit ratings will fall below 'A-' this financial year if this uplift is removed. In the event that widespread downgrading does take place, it is proposed that unsecured deposits can be made with banks with a rating of 'A-' (maximum duration 6 months) or 'BBB+' (maximum duration 100 days).

Unsecured deposits with a bank rated at 'BBB' or below would be restricted to overnight deposits at the Council's current account bank only.

3.3 Appendix C (page 22) of the Strategy sets out approved counterparty types and limits for 2015/2016 in detail. It should be noted that the presence of a counterparty type on the list does not necessarily mean that it will be used by the Council. A limit of £2m per counterparty will apply (lower than the £3m limit in 2014/2015), with the exception of investments with Government bodies (unlimited) and pooled funds, for example Money Market Funds, for which the individual limit will be £3m (currently £1m).

4 Borrowing Strategy

4.1 The current approach of 'internal borrowing' (ie using cash held as balances, reserves and working capital as an alternative to long-term borrowing) as a means of funding capital expenditure will continue in 2015/2016

4.2 The Council will remain open to the possibility of debt rescheduling (ie replacing an existing loan with a new loan or loans, or repaying a loan without replacement) where this is expected to lead to an overall saving or reduction in risk.

5 Prudential Indicators

A number of the Prudential Indicators relate to elements of the Capital Programme and General Fund and Housing Revenue Account budgets which are to be considered by Cabinet in February 2015 as a full 'budget package'. It has not been possible to include future values for these Prudential Indicators at this stage, and they will be outside the scope of the Audit and Standards Committee's review.

6 Financial Implications - All relevant implications are referred to in the Draft Strategy Statement.

7 Legal Implications - The legislative context is set out in the Draft Strategy Statement.

8 Sustainability Implications - I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a budget/financial monitoring report.

9 Risk Management Implications - The risk management implications associated with this activity are explained in the Draft Strategy Statement.

10 Equality Screening - The contents of this report is technical in nature, relating to the management of the Council's investments and borrowing. As such, Equality Screening was not required.

Appendix 1 – Draft Treasury Management Statement and Investment Strategy 2015/2016 to 2017/2018

Background Papers – Treasury Strategy Statement 2014/2015
http://www.lewes.gov.uk/council/20987.asp

Lewes District Council

Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18

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1. Executive Summary

1.1 Borrowing – the Council can borrow to finance capital expenditure in a similar way to an individual taking out a mortgage to buy a house. At 31 March 2015, total cumulative capital expenditure which will need to be funded amounts to £70.7 m. The actual long term-borrowing (the mortgage) that we have is only £56.7m because we are using the cash held in our reserves to make up the difference, rather than invest that money. (See Sections 6 and 7 for the details).

1.2 Debt rescheduling – The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. (See Section 8 for the details).

1.3 Accounting for debt – the Council will adopt a two-Pool approach in order to manage and account for the debt of the General Fund/Housing Revenue Account. (See Section 9 for the details).

1.4 Investing – at any given time, the Council has varying amounts of cash consisting of reserves and balances, as well as working capital, which must be held securely. The security of our investments is our highest priority. We have defined the types of investment that we will make and the criteria that those organisations with which we will deal must meet. (See Sections 10 and 11 for the details).

1.5 Providing for the repayment of debt – we will continue to make formal annual provisions to repay our long term borrowing, and will also build up a fund in the Housing Revenue Account Balance so that debt can be repaid if we choose to do so. (See Section 13 for the details).

1.6 Reporting – we will closely monitor our Treasury Management activity and make reports to every meeting of the Council's Audit and Standards Committee and Cabinet. (See Section 14 for the details).

2. Treasury Management Defined

2.1 The Council defines its Treasury Management activities as:

"the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 Treasury Management is not undertaken in isolation. The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management and ensuring that performance is monitored and reported. All Treasury Management activity takes place within the context of effective risk management.

3. Scope of the Treasury Management Strategy Statement

3.1 This Strategy Statement sets out the Council's approach to financing (borrowing) and investment for the financial year but also sets the context for the following two years.

3.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in Public Services (the "TM Code"). This requires local authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of the financial year.

3.3 This Strategy Statement also incorporates the formal Investment Strategy which is necessary to comply with guidance issued by the Department for Communities and Local Government. (DCLG) in March 2010.

3.4 The Strategy sets out the context to Treasury Management in terms of the Council's financial resources as measured in its Balance Sheet and external factors, in particular the outlook for interest rates. It considers how the Revenue Budget and Capital Programme will impact on the Balance Sheet position.

4. Approach to Risk

4.1 The Council has borrowed and expects to invest substantial sums of money and is therefore exposed to financial risks including the revenue effect of changing interest rates and, in the extreme, the loss of invested funds.

4.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. No Treasury Management activity is without risk. The main risks to the Council's Treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (adequacy of cash resources)
- Market or Interest Rate Risk (exposure to fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk (compliance with statutory powers and regulatory requirements)
- Fraud, Error and Corruption and Contingency Management (maintenance of sound systems and procedures)

5. External Context

5.1 Economic Background

There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

5.2 Credit Outlook

The transposition of two European Union (EU) directives into UK legislation will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.

5.3 Outlook for Interest Rates

The detailed economic interest rate outlook provided by the Council's Treasury advisor, Arlingclose Ltd, is attached at Appendix A. In summary, Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/2016 being around 0.75%. However, if the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year.

Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%, and that the average 10 year PWLB loan rate for 2015/16 will rise to 3.40%.

5.4 Interest rates are of fundamental importance to the Council's Treasury Management operation. The ideal scenario would be to make short-duration investments if interest rates are low and are expected to rise and to invest for longer periods if interest rates are considered to be at their peak and are expected to fall. In terms of borrowing, it is preferable to borrow short-term when interest rates are high and expected to fall and to undertake long-term borrowing when interest rates are low and expected to rise.

5.5 The estimate for external interest payments in 2014/2015 is £1.73m, unchanged from 2014/2015, and for external interest receipts is £0.075m (2014/15 £0.050m).

5.6 The Council's need to borrow and its ability to invest are interrelated, as explained elsewhere in this Strategy Statement. The Council will reappraise its strategy in both of these areas from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates. Any such changes will require the prior approval of Cabinet.

6. The Need to Borrow Long Term

6.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in its housing debt cap in order to enable specific projects. A bid from this Council was successful and, should new build schemes for 30 properties across 7 sites proceed, this Council's debt cap will increase to £75.248m.

6.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. In recent years, the Council's strategy has been to maintain borrowing and investments below their underlying levels, known as internal borrowing, and this remains the Strategy for 2015/16.

6.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. External borrowing is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to use the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans.

6.4 The CFR is calculated each year in accordance with a statutory formula. As noted above, the level of CFR increases each year by the amount of capital expenditure which is yet to be financed and is reduced by the amount that the Council sets aside for the repayment of borrowing. This is illustrated in the table below. Amounts from 2015/2016 onwards are indicative. Projected capital expenditure in 2015/2016 with a financing requirement includes projects for the construction of 30 new affordable homes (£3.8m), installing PV panels on council-owned homes (£2.7m) and implementing new technology (£1.3m).

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Opening CFR	71.031	71.448	70.709	74.034	72.242
Capital exp in year	10.504	16.594	15.666	8.140	6.891
Less financed	-8.727	-15.472	-10.464	-7.955	-6.706
Less amount set aside for debt repayment	-1.360	-1.861	-1.877	-1.977	-1.966
Closing CFR	71.448	70.709	74.034	72.242	70.461

6.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
General Fund CFR	4.652	5.919	8.421	8.123	7.837
HRA CFR	66.796	64.790	65.613	64.119	62.624
Total CFR	71.448	70.709	74.034	72.242	70.461

6.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use):

	31/3/14 £m	31/3/15 £m	31/3/16 £m	31/3/17 £m	31/3/18 £m
(a) Capital Financing Requirement	71.448	70.709	74.034	72.242	70.461
(b) Actual external borrowing	-56.673	-56.673	-56.673	-56.673	-56.673
(c) Use of Balances, Reserves and working capital as alternative to borrowing (a)–(b)	14.775	14.036	17.361	15.569	13.788
(d) Total Balances and Reserves	16.507	12.758	10.552	10.417	10.417
(e) Working capital	3.269	5.730	10.307	10.284	11.549
(f) Amount used as an alternative to borrowing (c) above	-14.775	-14.036	-17.361	-15.569	-13.788
(g) Total investments (d)+(e)+(f)	5.001	4.452	3.498	5.132	8.178

6.7 The table above (line b) assumes that the current external loan portfolio is unchanged across the period. There is an opportunity to repay a £5m variable rate loan to the PWLB in March 2015, utilising cash balances that would otherwise be invested. A final decision will be taken closer to the time, to take into account updated projections of working capital and reserves and balances.

6.8 Line g in the table above indicates that it will be possible to continue the current approach of internal borrowing as an alternative to raising new external loans, which remain at their current level across the period (line b). However, it will be necessary to monitor the position closely. Market conditions, interest rate expectations and counterparty and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The following section explains the approach to borrowing in more depth.

7. Borrowing Strategy

7.1 As noted above, the Council's underlying need to borrow for capital purposes is measured by reference to its CFR. In respect of General Fund activities, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year in order to ensure that the underlying need to borrow is ultimately eliminated. There is no requirement to make a provision to reduce HRA borrowing, although it is prudent to do so.

7.2 Capital expenditure not paid for from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.

7.3 In accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed its highest CFR over the next three years.

The cumulative estimate of the Council's long-term borrowing requirement in respect of historic and planned capital expenditure is shown in the table below. Increases in 2015/2016 resulting from the projects listed in paragraph 6.4 above are offset over the period though to 2017/2018 by provision being made by the HRA for the repayment of debt. The table excludes £5.7m of potential borrowing for housing projects (at 31 March 2015), permissible up to the level of the Council's underlying Housing Debt Cap.

	31/03/2015 Estimate £m	31/03/2016 Estimate £m	31/03/2017 Estimate £m	31/03/2018 Estimate £m
Capital Financing Requirement	70.7	74.0	72.2	70.5
Less: Profile of current Borrowing	-56.7	-56.7	-56.7	-56.7
Cumulative Maximum External Borrowing Requirement	14.0	17.3	15.5	13.8

7.4 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

7.5 Given the projected reduction in revenue funding from the Government through to 2019/2020 and the Council's General Fund savings target of £2.7m over that period, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio, With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. For example, the current rates (January 2015) available to the Council (which include a 0.2% reduction under the local authority 'certainty rate' system introduced in November 2012) for 2-year and 5-year PWLB maturity loans are 1.39% and 1.78% respectively compared with 0.25% which can be earned on a temporary deposit with the Government.

7.6 The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. At some stage the level of General Fund Reserves and Balances will become depleted (as they are used for the purpose for which the funds were set aside) restricting the ability to borrow internally. The Council's appointed Treasury advisor, Arlingclose, will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2015/2016 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. Any decision to borrow will be confirmed with the Cabinet Member for Corporate Services and reported to the next meeting of the Cabinet.

7.7 The Council may borrow short-term loans (normally up to one month) to cover unexpected cash flow shortages should they arise.

7.8 The approved sources of new long-term and short-term borrowing will be:

- Public Works Loans Board
- UK Local Authorities
- any bank or building society approved for investments (see Section 11) below.
- LGA Bond Agency

In the event that alternative sources of borrowing are identified in the year, which are considered to be more appropriate in the context of the overall strategy, a report will be made to Cabinet and Council. Arlingclose will assist the Council with the analysis of options.

7.9 The PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. However, the Council will investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

7.10 The Local Government Association Bond Agency established the Local Capital Finance Company in 2014. The Company plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for a number of reasons including the fact that there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from this source will therefore be the subject of a separate report to full Council.

8. Debt Rescheduling

8.1 At the time of preparing this Strategy, the Council's loan portfolio was as shown in the table overleaf. All of the PWLB loans listed above were taken out in March 2012 in order to finance the payment to the Government needed for the national transition to self-financing for local authority housing. The Lender's Options Borrower's Option (LOBO) loan shown in the table above was taken out in April 2004 at the rate of 4.5% with a term of 50 years. Every 4 years, the Lender has the option to increase the interest rate, and if it does so, the Council has the right to repay. The next date when the rate/terms of the loan will be reviewed is April 2016.

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.7000	01/03/2024
PWLB	Fixed	5.00	3.3000	01/03/2032
PWLB	Fixed	2.00	3.0500	01/09/2027
PWLB	Fixed	2.00	2.7600	01/09/2024
PWLB	Fixed	4.00	2.9700	01/09/2026
PWLB	Fixed	5.00	3.2800	01/09/2031
PWLB	Fixed	4.00	2.6300	01/09/2023
PWLB	Fixed	5.00	3.4400	01/03/2037
PWLB	Fixed	6.67	3.5000	01/03/2042
PWLB	Fixed	5.00	3.4300	01/09/2036
PWLB	Variable	5.00	0.6200	28/03/2022
PWLB	Fixed	4.00	3.0100	01/03/2027
	Sub-total	51.67		
Barclays	LOBO	5.00	4.5000	06/04/2054
	Total	56.67		

8.2 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to set a formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. Any debt rescheduling activity will be confirmed with the Cabinet Member for Corporate Services and reported to the next Cabinet meeting. Reducing the level of cash held and, as a result, Credit and Counterparty risk.

9. The Housing Revenue Account Share of Treasury Management Costs.

9.1 Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

9.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their Strategy Statement.

9.3 The Council has adopted a ‘2 pool’ (General Fund and HRA) approach to accounting for long-term loans, all of which were allocated to the HRA on the introduction of ‘self-financing’ Any new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

9.4 At the start of each year, an assessment will be made of the difference between the value of the HRA loans pool and the HRA’s underlying need to borrow. If the resulting cash balance is negative, an ‘internal loan’ will be advanced from the General Fund (Reserves and Balance) to the HRA and interest charged at a rate equivalent to a one-year maturity loan from the PWLB at the start of the financial year. This is a reasonable approach and reflects the fact that strategic borrowing decisions will generally be made on an annual basis, as demonstrated in this Strategy. The same approach will be adopted for any new internal borrowing required in the year to support the cost of HRA capital expenditure not anticipated in the initial annual capital programme.

10. The Need to Invest

10.1 As shown in the table in paragraph 6.6 the Council currently holds healthy Reserves and Balances (£12.8m projected at 31 March 2015 excluding s106 Developer Contributions and Capital Receipts which will be used to fund the Capital Programme over the next three years). In simple terms, Reserves represent amounts of money which have been set aside for use in future years for specific purposes (eg to pay for the replacement of vehicles at the end of their useful life) and Balances are cash which is retained both to ensure that the Council is able to respond effectively if an unforeseen event arises (eg the failure of a major contractor) and also to act as a buffer against unpredicted cash flow movements. Reserves and Balances are forecast to reduce over the next three years as they are called upon to support projects, services and the Council's deficit reduction programme.

10.2 Although a proportion of the Reserves and Balances are being used as an alternative to external long-term borrowing, this still leaves cash to be retained. In addition, the Council's cash flow movements fluctuate on a day to day basis, with cash received exceeding cash paid out at key points over the year. For example, at the start of 2014/2015 £11m was available for investment but the maximum amount invested at any point in the year was £28m. The purpose of the Investment Strategy is to define the conditions under which this 'surplus' cash is to be managed, with the priority being security of the sums invested.

10.3 Guidance from DCLG on Local Government Investments in England requires authorities to set an Annual Investment Strategy. The speculative procedure of borrowing purely in order to invest is unlawful. However, taking on new external loans to reduce the level of internal borrowing is permissible, and, if this takes place, the Council will place importance on the flexibility of its loan portfolio as well as the liquidity of its investments.

11. Investment Strategy

11.1 The Council's general policy objective is to invest its surplus funds prudently, striking a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council's investment priorities are:

highest priority -	security of the invested capital;
followed by -	liquidity of the invested capital (this enables the Council to react to changing circumstances)
finally -	an optimum yield which is commensurate with security and liquidity.

11.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2015/2016 when it is appropriate to do so. This is especially the case for funds that are identified as being available for longer-term investment. This diversification will therefore represent a substantial change in strategy over the coming year.

11.3 The Council may invest its surplus funds with any of the counterparty types identified in Appendix C, subject to the cash limits (per counterparty) and the time limits shown. It is important to note that not all of the types of investment listed above will necessarily be used. Before any type of investment instrument is used for the first time (eg corporate bonds), specific Cabinet approval will be sought.

11.4 Investment decisions will be made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

11.5 The Council and its advisors remain vigilant at all times, monitoring signs of credit or market distress that might adversely affect the Council.

11.6 Credit ratings are obtained and monitored by Arlingclose who will notify changes in ratings as they occur. Where a counterparty has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost, will be recalled
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

11.7 Where a rating agency announces that a rating is on review for possible downgrade below the approved investment criteria, then only investments that can be withdrawn on the next working day will be made with that counterparty until the outcome of the review is announced. This approach will not apply to 'negative outlooks' which indicate a long-term direction of travel rather than an imminent change of rating.

11.8 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

11.9 At times of deteriorating financial market conditions affecting the credit worthiness of all organisations (as happened in 2008 and 2011), the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments.

11.10 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the DCLG Guidance.

Specified investments are

- denominated in £ sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation
- invested with the UK Government or local authority or a body or investment scheme of high credit quality'

Non specified investments are, effectively, everything else. The Council does not intend to make any investments denominated in foreign currencies nor any that are defined as capital expenditure (eg company shares). Non-specified investments will therefore be limited to long-term investments ie those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition of 'high credit quality'.

11.11 The Council defines 'high credit quality' organisations and securities as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. **Limits** on non-specified investments are shown below.

	Cash limit
Total long-term investments	£2m
Total investments rated below A-	£5m
Total investments with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£9m

11.12 The Council's revenue reserves available to cover investment losses are forecast to be £8m on 31st March 2015. The maximum that will be lent to any one organisation (other than the UK Government) will be £2m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below:

	Cash limit
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£3m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered Providers	£4m in total
Money Market Funds	£6m in total

11.13 The Director of Corporate Services will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the investment portfolio will be reported to meetings of the Audit and Standards Committee and Cabinet.

11.14 All of the Council's investments are currently managed in-house and this approach will continue for the duration of this Strategy unless otherwise approved in advance by Cabinet.

11.15 The Council uses a spreadsheet model, updated daily, to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

11.16 Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

12. The Use of Financial Instruments for the Management of Risks

12.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (eg interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (ie those that are not embedded into a loan or investment).

12.2 The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

12.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

13. Providing for Debt Repayment - 2015/16 Minimum Revenue Provision Statement

13.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on this MRP has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

13.2 The four MRP options available are:

Option 1: Regulatory Method — Option 2: CFR Method
Option 3: Asset Life Method — Option 4: Depreciation Method

13.3 Options 1 and 2 may be used only for supported non-HRA capital expenditure (ie where the Government supports the cost of financing new borrowing through a recurring grant). Methods of making prudent provision for self financed non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

13.4 The MRP Statement will be submitted to Council before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

13.5 The Council's Policy for making a MRP will remain unchanged in 2015/2016 ie in respect of capital expenditure which is supported expenditure, Option 1 will apply – MRP will be equal to the amount determined in accordance with the former regulations 28 and 29 of the Local Authorities Capital Finance and Accounting (England) Regulations 2003 as if they had not been revoked. In the event that capital expenditure is incurred which is not Supported Capital Expenditure and is therefore self-financed, Option 3 will apply – MRP will be calculated according to the asset life method and will be made in equal instalments over the life of the asset.

13.6 The Housing Revenue Account 30-year Business Plan includes the principle that the long-term borrowing required on the move to self-financing will be repaid at the earliest opportunity. However, there is no requirement to do so and become 'debt-free'. In order to maintain flexibility, resources will be set aside in the HRA balance for potential debt repayment, but formal Revenue Provisions (which cannot be reversed) will not be made other than to reduce internal borrowing from the General Fund.

14. Reporting on the Treasury Outturn

The Director of Corporate Services will report on Treasury Management activity/performance as follows:

Report to/Coverage	Frequency:
Council	
Treasury Management Strategy/Annual Investment Strategy/MRP Policy	Annually before start of the year
Treasury Management Strategy/Annual Investment Strategy/MRP Policy – mid year report	Annually mid year
Treasury Outturn report	Annually after year end and by 30 September
Cabinet	
Receives each of the above reports in advance of Council and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives details of Treasury transactions against Strategy	Every cycle
Audit and Standards Committee	
Receives each of the above reports in advance of Cabinet and makes observations as appropriate	In advance of year/mid-year/after year end and by 30 September
Reviews details of Treasury transactions against Strategy and makes observations to Cabinet	Every cycle

15. Training

15.1 The TM Code requires the Director of Corporate Services, as responsible officer, to ensure that all councillors tasked with Treasury Management responsibilities, including scrutiny of the Treasury Management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Arlingclose will be asked to continue the briefing programme for Councillors which has been running since 2009 (the most recent session was held in September 2014).

15.2 The training needs of the Council's Treasury Management staff will be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. The Council's contract with Arlingclose includes provision for staff to attend training seminars and workshops.

16. Investment Consultants

The Council has appointed Arlingclose as its financial advisers for the period 1 July 2012 to 30 June 2016. Arlingclose will be the Council's primary source of information, advice and assistance relating to investment activity. Individual investment decisions are made by the Council. Review meetings are held at least twice a year, at which the quality of the service received to date is discussed.

17. Publication

The Annual Treasury Management Statement and Investment Strategy, along with any in-year revisions, can be downloaded from www.lewes.gov.uk and is also available on request to the Director of Corporate Services, Southover House, Southover Road, Lewes, or by email to finance@lewes.gov.uk.

Appendix A - Arlingclose's Economic and Interest Rate Forecast

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.55	0.60	0.65	0.85	1.00	1.15	1.30	1.45	1.60	1.75	1.85	2.05	2.15
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.95	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.40	2.50
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	1.70	1.75	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.90	2.95
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.40	2.45	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.05	3.10
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.90	2.95	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.60
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

Commentary:

Underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.
- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-

employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.
- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Forecast:

- Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

Appendix B – Prudential Indicators 2015/2016 to 2017/2018

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme and are considered by Cabinet when the Capital Programme is set. These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement:

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Director of Finance reports that the Council has had no difficulty meeting this requirement in 2014/2015, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the draft budget for 2015/2016.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
1a	Non-HRA	2.063	10.714	6.319	2.610	1.361
1b	HRA	5.683	5.880	9.347	5.530	5.530
	Total	**7.746**	**16.594**	**15.666**	**8.140**	**6.891**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2014/15 Original %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
2a	Non-HRA	0.95	To be completed			
2b	HRA	21.51				

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
3a	Non-HRA	4.512	5.919	8.421	8.123	7.837
3b	HRA	65.779	64.790	65.613	64.119	62.624
	Total CFR	**70.291**	**70.709**	**74.034**	**72.242**	**70.461**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Balance B/F	71.880	71.448	70.709	74.034	72.242
Capital expenditure financed from borrowing	0.273	1.122	5.202	0.185	0.185
Revenue provision for Debt Redemption.	-1.862	-1.861	-1.877	-1.977	-1.966
Balance C/F	**70.291**	**70.709**	**74.034**	**72.242**	**70.461**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No.	Actual External Debt as at 31/03/2015	£m
4a	Borrowing	56.673
4b	Other Long-term Liabilities	0.000
4c	**Total**	**56.673**

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No.	Incremental Impact of Capital Investment Decisions	2014/15 Original £	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
5a	Increase in Band D Council Tax	38.30	To be completed			
5b	Increase in Average Weekly Housing Rents	8.31				

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure.

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated Treasury Management strategy and manages its Treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No.	Authorised Limit for External Debt	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
6a	Borrowing	72.00	72.00	76.00	76.00	76.00
6b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
6c	**Total**	**72.50**	**72.50**	**76.50**	**76.50**	**76.50**

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Director of Corporate Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet.

No.	Operational Boundary for External Debt	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
7a	Borrowing	66.50	66.50	70.50	70.50	70.50
7b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
7c	**Total**	**67.00**	**67.00**	**71.00**	**71.00**	**71.00**

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the revised CIPFA Treasury Management Code in February 2010. The Council has incorporated the changes from the CIPFA Code of Practice and subsequent revisions into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
9	**Upper Limit for Fixed Interest Rate Exposure**	72.5	72.5	76.5	76.5	76.5
10	**Upper Limit for Variable Interest Rate Exposure**	(27.5)	(27.5)	(27.5)	(27.5)	(27.5)

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
11a	under 12 months	0	70
11b	12 months and within 24 months	0	70
11c	24 months and within 5 years	0	75
11d	5 years and within 10 years	0	75
11e	10 years and above	0	100

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No.	Upper Limit for total principal sums invested over 364 days	2014/15 Original %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
12	Upper limit	50	50	50	50	50

13. HRA Limit on Indebtedness

This Prudential Indicator is associated with the introduction of self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
13a	HRA CFR	65.779	64.79	65.613	64.119	62.624
13b	HRA Debt Cap	72.931	72.931	75.248	75.248	75.248
	Difference	**7.152**	**8.141**	**9.635**	**11.129**	**12.624**

Appendix C – Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£2m 4 years	£2m 10 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£2m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
See note below					
A-	£2m 6 months	£2m 13 months	No use	No use	No use
BBB+	£2m 100 days	£2m 6 months	No use	No use	No use
BBB or BBB-	£2m next day only	£2m 100 days	No use	No use	No use
Pooled funds	£3m per fund				

Approved investments with institutions with credit ratings of A- or below will only be permissible in the event of rating agencies downgrading the ratings of major UK banks in response to the bail-in provisions of the EU Bank Recovery and Resolution Directive.

Further details of the counterparty types shown in the table above are as follows:

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Council's current account bank.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans and bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At present, the three main agencies providing credit

	rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
International Financial Reporting Standards (IFRS)	The set of accounting rules with which all local authorities have been required to comply from 1 April 2010.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.