Agenda

AUDIT AND STANDARDS COMMITTEE

Date:	Thursday, 17 November 2016 at 6:30 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	Councillor John Singleton JP (Chairman) Councillor David Donaldson (Vice-Chairman) Councillors Delma Collins, Peter Collins, Paul Hayhurst, Roger Lloyd, Edward Nash, Graeme Neale, Roger Small.

	PROCEDURAL ITEMS:	PAGE
1	**Declarations of Interest:** Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council's Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided.	1
2	**Confirmation of Minutes:** To confirm the minutes, as previously circulated, of the meetings held on 22 September 2016 and 18 October 2016 as correct records.	
3	**Substitute Members:** Details of any substitute members notified in accordance with council procedure rule 24(c).	1
	STANDARDS ITEMS	
4	**Issues Raised With The Monitoring Officer (INFORMATION ITEM)**	**3 - 4**
	AUDIT DECISION ITEMS	
5	**Annual Audit Letter 2015/16**	**5 - 12**
6	**Mid Year Prudential Indicators and Treasury Management Monitoring Report 2016/17**	**13 - 25**

Contact: Katharine McDonnell - Telephone: (01253) 658423 – Email: democracy@fylde.gov.uk

The code of conduct for members can be found in the council's constitution at

http://fylde.cmis.uk.com/fylde/DocumentsandInformation/PublicDocumentsandInformation.aspx

INFORMATION ITEM

REPORT OF	MEETING	DATE	ITEM
MONITORING OFFICER	AUDIT AND STANDARDS COMMITTEE	17 NOVEMBER 2016	4

ISSUES RAISED WITH THE MONITORING OFFICER

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The Monitoring Officer has been appointed as Proper Officer to receive allegations of failure to comply with the Code of Conduct regarding councillors, town and parish councillors and co-opted members. The Monitoring Officer has delegated authority, after consultation with the 'Independent Person', to determine whether an allegation of members' misconduct requires investigation and arrange such an investigation.

The Monitoring Officer should seek resolution of complaints without formal investigation wherever practicable and she has the discretion to refer matters to the Audit and Standards Committee where she feels it is inappropriate for her to take a decision on a referral for investigation. She should also periodically prepare reports for the Audit and Standards Committee on the discharge of this function.

In order to keep the Audit and Standards Committee informed as to the number and general nature of matters brought to her attention; reports on the discharge of the function of Monitoring Officer are brought on a periodic basis.

It is a point of clarification that there are a number of stages in dealing with reported matters. Some matters are brought to the attention of the Monitoring Officer without merit. In instances where a breach may have been considered to arise, and in line with agreed procedures, wherever possible the Monitoring Officer should seek the resolution of complaints without the need for formal investigation.

SOURCE OF INFORMATION

The Monitoring Officer.

INFORMATION

The table below shows the nature of the allegations made in the complaints since last reported to the Audit and Standards Committee on 16 June 2016. Complainants do not need to specify a relevant part of the code where they believe a breach has occurred (and indeed some of these complaints relate to differing codes dependant on when the complaint originates). For the purpose of the table below, the Monitoring Officer has made a judgement and grouped them accordingly.

PARISH MATTERS	
Failure to treat others with respect	1
Bringing the authority into disrepute	0
Interests	0

BOROUGH MATTERS	
Failure to treat others with respect	0
Bringing the authority into disrepute	1
Interests	1

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Periodic reports to the Audit and Standards Committee show all the matters which have been brought to the attention of the Monitoring Officer for review in order that members of the Audit and Standards Committee have an appreciation of all matters arising.

FURTHER INFORMATION

Contact Tracy Morrison, Monitoring Officer Tel: 01253 658521

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	17 NOVEMBER 2016	5

ANNUAL AUDIT LETTER 2015/16

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The Committee is requested to consider the contents of the Annual Audit Letter issued by the Council's external auditors, KPMG for the financial year 2015/16. The Audit Letter details the auditor's opinion on the Council's performance and financial management. The opinion of KPMG is also provided on the Council's preparation of its financial statements. The report will be presented by KPMG.

RECOMMENDATIONS

The Committee is asked to note the content of the Annual Audit Letter and provide comments as appropriate.

SUMMARY OF PREVIOUS DECISIONS

The Annual Audit Letter from the Council's external auditors is considered each year by the Audit and Standards Committee.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (**Value for Money**)	√
Delivering the services that customers expect of an excellent council (**Clean and Green**)	
Working with all partners (**Vibrant Economy**)	
To make sure Fylde continues to be one of the most desirable places to live (**A Great Place to Live**)	
Promoting Fylde as a great destination to visit (**A Great Place to Visit**)	

REPORT

1.1 The Audit letter is produced each year by the Council's external auditors upon conclusion of the audit in respect of the prior financial year. The judgements contained within the Audit Letter are based upon inspection activity which has been undertaken as part of the audit.

1.2 Commentary is provided within the letter about the external auditor's opinion on the Council's financial statements and arrangements for securing value for money. In arriving at their conclusions, the auditors considered financial governance, financial planning and control processes, and how the Council is prioritising resources and seeking to improve efficiency and productivity.

1.3 A copy of the Annual Audit Letter for 2015/16 is attached.

CONCLUSION

1.4 The Audit and Standards Committee is asked to note the content of the Annual Audit Letter and are invited to make any comments as appropriate.

IMPLICATIONS	
Finance	Implications are detailed within the body of the Audit Letter.
Legal	The legal implications are contained within the body of this report and the report of the Council's external auditors, KPMG.
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

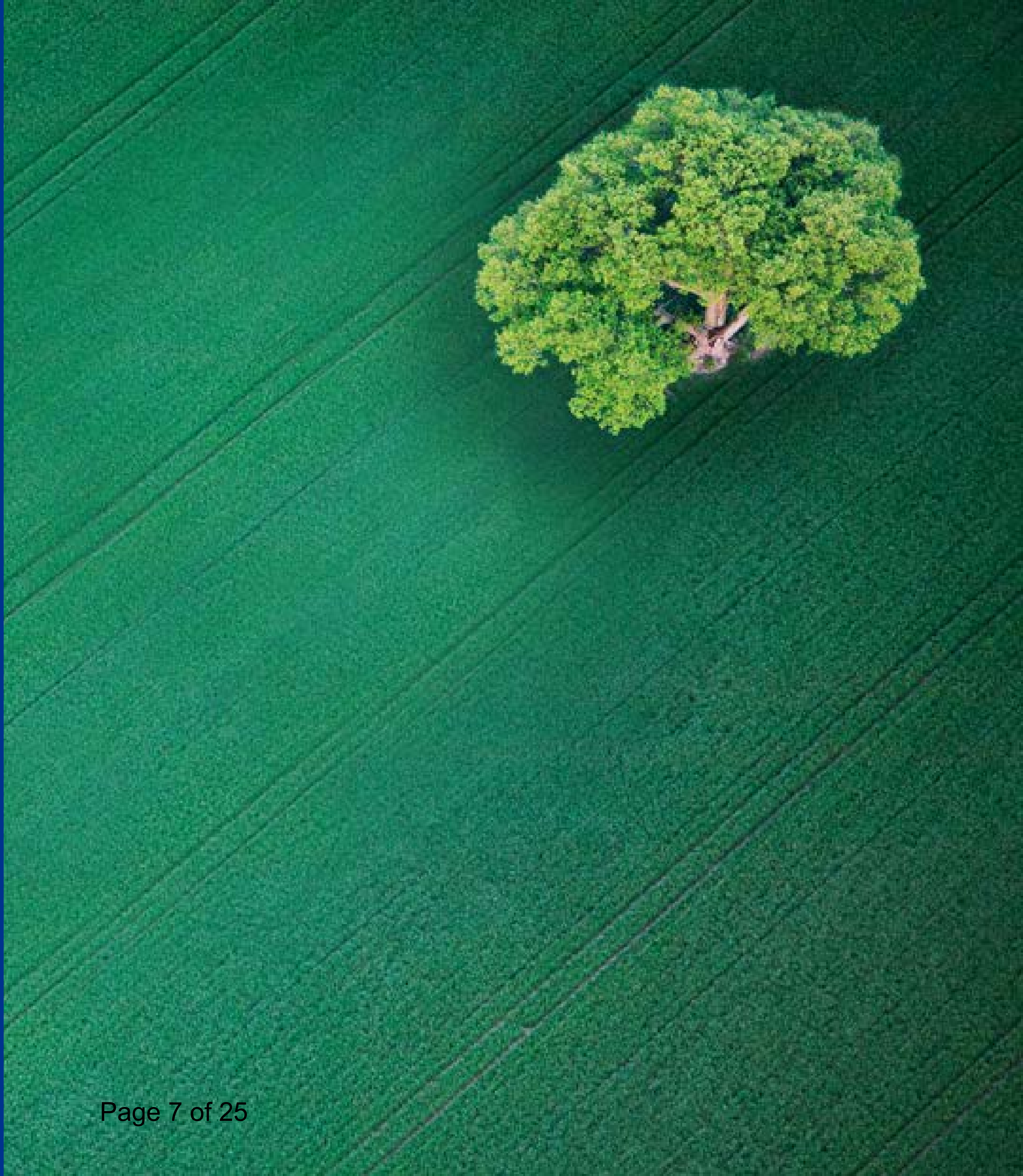
LEAD AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	01253 658566	November 2016	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
none		

Attached documents

1. Annual Audit Letter 2015/16

Annual Audit Letter 2015/16



Fylde Borough Council

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FINAL

28 October 2016

Contents

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

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

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

Section one

Headlines

This Annual Audit Letter summarises the outcome from our audit work at Fylde Borough Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
Financial statements audit	We did not identify any material misstatements as a result of our audit work. We did, however, agree with management a small number of presentational adjustments to the accounts during the course of our audit. We identified one audit issue in 2015/16 which has been communicated to management. This resulted in one low priority recommendation within our report to those charged with governance, as follows: — Monthly NNDR to General Ledger reconciliations should be signed and dated by the individual who has prepared and reviewed the reconciliations, to provide robust audit evidence of segregation of duties, and appropriate management review.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Whole of Government Accounts	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
Certificate	We have not yet issued our certificate for 2015/16, which confirms completion of our audit. We have received an objection to the Authority's financial statements, which we have considered. We issued a letter to the elector and the Authority outlining our provisional judgement on 10 October 2016. Until the 28-day period for provision of further information or challenge has elapsed, we are not able to issue our certificate. We have reported this delay to completion of our certificate to PSAA.
Audit fee	Our fee for 2015/16 was £47,700, excluding VAT. This was a reduction of around 25% on the fee for 2014/15, and in line with the planned fee for 2015/16. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.Fylde.gov.uk.

2016

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns (January 2016)

This report summarised the outcome of our certification work on the Authority's 2014/15 grants and returns.

External Audit Plan (March 2016)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2016)

The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

Report to Those Charged with Governance (July 2016)

The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report (September 2016)

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter (October 2016)

This Annual Audit Letter provides a summary of the results of our audit for 2015/16.

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £47,700, which is in line with the planned fee.

Our fees are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

kpmg.com/socialmedia

kpmg.com/app

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT AND STANDARDS COMMITTEE	17 NOVEMBER 2016	6

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2016/17

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

This report is a mid-year Prudential Indicators and Treasury Management monitoring report which has been prepared in line with the recommendations of CIPFA's (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management 2011. The report will also be presented for consideration at the Council meeting of 5th December 2016.

RECOMMENDATIONS

The Audit and Standards Committee is recommended:

1. To scrutinise the Mid-Year Prudential Indicators and Treasury Management monitoring report; and
2. To recommend to Council that the updated Prudential Indicators and Investment Limits, as shown at Appendix B of this report, be approved.

SUMMARY OF PREVIOUS DECISIONS

1. Council approved the 2015/16 to 2019/20 Treasury Management Strategy & Prudential Indicators at its meeting on 2nd March 2016.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (**Value for Money**)	√
Delivering the services that customers expect of an excellent council (**Clean and Green**)	
Working with all partners (**Vibrant Economy**)	
To make sure Fylde continues to be one of the most desirable places to live (**A Great Place to Live**)	
Promoting Fylde as a great destination to visit (**A Great Place to Visit**)	

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2016/17 – POSITION AS AT 30th SEPTEMBER 2016

Report

The Code of Practice on Treasury Management requires the Council to receive a Mid-Year Treasury Review report in addition to the forward-looking Annual Treasury Strategy and the backward-looking Annual Treasury Report. The Code of Practice also requires Members to scrutinise the Treasury Management function.

Background

The Mid-Year Treasury Review report has been prepared in compliance with the Code of Practice. In order to assist with the terminology and explanations that are included within this report, Appendix A sets out a Glossary of Treasury Terms and a number of Treasury Management and Prudential Indicators Frequently Asked Questions. Appendix B sets out the latest Treasury Management position compared to the forecast Prudential Indicators.

1. Economic Update

1.1 Economic Background

The UK economy has shown reasonably strong growth with year on year growth to the end of September of 2.2%. However, the UK economic outlook changed significantly on 23rd June 2016 following the result of the EU referendum. The result prompted a sharp decline in household, business and investor sentiment.

In August the Monetary Policy Committee initiated substantial monetary policy easing which included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (Quantitative Easing) and cheap funding for banks to maintain the supply of credit to the economy. Following this, money market rates and bond yields have declined to record lows, impacting on the returns that the Council is able to achieve on its investments. After an initial sharp drop, equity markets have staged a recovery and have finished the half-year in a position of relative strength.

1.2 Economic Outlook

The economic outlook for the UK has altered significantly following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements that the government is able to secure with the EU and the rest of the world. The short-to-medium term outlook has been more downbeat since the referendum outcome due to the uncertainty generated by the result. However, recent economic data has been better than expected, suggesting a less severe economic slowdown, at least in the short-term.

It is feared that economic and political uncertainty may dampen or delay investment decisions, leading to lower activity levels and potentially a rise in unemployment.

Inflation is expected to rise as the sharp depreciation in the value of sterling is driving up the price of imported goods. The Bank of England has increased its inflation forecast for 2016 to 0.9% by the end of the year. Its forecast has also been increased for next year, predicting that the rate will almost triple to 2.7% in 2017, up from the previous prediction of 1%. The Bank does not expect inflation to return to its 2% target until 2020.

The Bank of England also raised its forecast for economic growth next year to 1.4% from 0.8%, but cut forward expectations for 2018 to 1.5% from 1.8%.

The revisions to growth indicate that the Bank now thinks the impact of the Brexit vote will be felt later in the economic cycle than was previously expected.

1.3 Interest Rate Forecast

The Bank of England has recently indicated that an interest rate cut this year is no longer an option. The latest forecast for interest rates from the Council's Treasury Advisors, Arlingclose, is shown in table 1 below.

Table 1: Interest Rate Forecast from Arlingclose

Quarter Ending	Bank Rate %	Investment Rates %		Borrowing Rates %		
		3 month	1 year	5 year	20 year	50 year
Dec 2016	0.25	0.25	0.60	1.10	2.05	2.05
Mar 2017	0.25	0.25	0.50	1.10	2.05	2.05
Jun 2017	0.25	0.25	0.50	1.10	2.05	2.05
Sep 2017	0.25	0.30	0.50	1.10	2.05	2.05
Dec 2017	0.25	0.30	0.50	1.15	2.05	2.05
Mar 2018	0.25	0.30	0.50	1.20	2.05	2.05
Jun 2018	0.25	0.30	0.50	1.20	2.05	2.05
Sep 2018	0.25	0.30	0.60	1.20	2.05	2.05
Dec 2018	0.25	0.30	0.70	1.20	2.10	2.10
Mar 2019	0.25	0.30	0.85	1.25	2.15	2.15
Jun 2019	0.25	0.30	0.90	1.25	2.15	2.15
Sep 2019	0.25	0.30	0.90	1.30	2.20	2.20
Dec 2019	0.25	0.30	0.90	1.30	2.20	2.20

2. Debt Management

The Council had long-term debt of £1.65M at the 30th September. This will fall to £1.0M by the 31st March 2017 (at a fixed rate of 3.91%) as a repayment of £0.65M is made in November this year. No additional external borrowing has taken place or is planned to take place during the current financial year.

The Council has an underlying need to borrow to fund capital expenditure (represented by the Capital Financing Requirement, or CFR) of £5.5M. Therefore, in addition to the existing external borrowing of £1.0M as detailed in the paragraph above, there is a requirement to fund a further £4.5M in 2016/17 based on Prudential Borrowing that has been approved as part of the Capital Programme. The CFR of £5.5M (See Appendix B Table 2) includes this Prudential Borrowing.

Currently this is being funded by the Council's cash flow, i.e. internal borrowing, and it is expected that internal borrowing will continue to be used for the rest of the financial year in line with advice from the Council's Treasury Advisors.

The use of internal resources in lieu of borrowing, i.e. internal borrowing, has continued to be the most cost effective means of funding capital expenditure. Internal borrowing of £4.5M is being used to fund the Capital Programme in 2016/17. The budget forecast for interest payable is £49K and assumes that the Council would not borrow externally in 2016/17. Using internal borrowing lowers the overall treasury risk by reducing both external debt and temporary investments. However, this position may not be sustainable over the longer term. Consequently, external borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's Treasury Advisors.

3. Investments

3.1 Investment Activity

The guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in the Investment Strategy for 2016/17 approved by Council on 2nd March 2016.

The Council defines "high credit quality" organisations as:

- those having a credit rating of A- or higher and that are domiciled in the UK for deposits of up to one year,
- those domiciled in a foreign country those with a sovereign rating of AA+ or higher for deposits of up to one year,
- Those having a credit rating of BBB+ or higher for periods of up to six months.

These criteria are specified within table 3 (Approved Investment Counterparties) of the Treasury Management Strategy as approved by the Council on 2nd March 2016.

The Council held £20.8M of investments as at 30th September 2016. These investments represent the Council's reserves and balances plus surplus cash flow at the mid-year point. The balance of cash is likely to reduce during the remainder of the financial year.

The UK Bank Rate had been maintained at 0.50% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Following the reduction in Bank Rate, short-term money market rates have fallen to between 0.10% and 0.20%. Deposits have been made at an average rate of 0.26% compared to the benchmark return of 0.28%. The Council's original estimate for investment income for 2016/17 was £70K. Income from investments has been higher than the forecast amount due to the higher than anticipated cash balances and consequently this income budget has been reviewed and will be increased to £82K in an updated Financial Forecast to reflect the current level of income.

3.2 Bail-in Risk

In the past governments had only two options to resolve failing banks: insolvency; or a taxpayer funded bail-out. Recent banking reform legislation has introduced a third option which allows customers to retain access to their bank accounts, but passes the banks losses onto its investors instead of taxpayers. This is known as a “bail-in”.

Local Authorities are not protected from bail in as it is expected that Public Authorities have better access to credit than citizens. Many depositors (such as corporate and retail customers) will rank above the Council in the event of a bail-in.

To respond to this risk the Council will continue to diversify the investment portfolio into more secure asset classes including Treasury Bills that are issued by the UK Central Government.

4. Compliance with Prudential Indicators

The Council has complied with its Prudential Indicators for 2016/17, which were approved on 2nd March 2016 as part of the Council’s Medium Term Financial Strategy Update, Including General Fund, Capital Programme and Treasury Management for 2015/16 to 2019/20.

Details of the Prudential Indicators can be found in Appendix B. As changes arise during the year some of the Prudential Indicators and Limits need to be revised.

5. Risk Assessment

Scrutiny of the revised Prudential Indicators and Limits and the subsequent recommendation of approval to the revisions by Audit and Standards Committee to Council helps to protect the Council from the risk of not having adequate liquidity or funding for the Council’s capital plans.

Additionally, if this scrutiny process were absent the Council would not be compliant with the Council’s approved Treasury Management Practices (as detailed in the Council Constitution) or CIPFA’s Code of Practice on Treasury Management.

6. Conclusion

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2016/17. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

IMPLICATIONS	
Finance	Financial implications are contained within the body of the report.
Legal	This report secures the continued compliance with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) and CIPFA's Code of Practice on Treasury Management.
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

LEAD AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	01253 658586	November 2016	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update Including General Fund, Capital Programme & Treasury 2015/16 – 2019/20	Council meeting 2nd March 2016	www.fylde.gov.uk

Attached documents

1. Appendix A – Glossary of Treasury Terms and Treasury Management and Prudential Indicators Frequently Asked Questions
2. Appendix B – Prudential Indicators

Appendix A

Glossary of Treasury Terms

Term	**Description**
Counterparty	Another party to an agreement.
Credit rating	A measure of the credit worthiness of an institution, corporation, or a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the counterparty being able to pay back a loan.
Liquidity	As assessment of how readily available an investment is. It is safer to invest in liquid assets because it is easier for an investor to get their money out of the investment.
Minimum Revenue Provision (MRP)	The minimum amount that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.
Public Works Loan Board (PWLB)	PWLB is part of HM Treasury and lends money to local authorities.
Security	As assessment of the creditworthiness of a counterparty.
Treasury adviser	External consultancy firms that provide information to local authorities, including information regarding counterparty creditworthiness.
Bail-in	A bail-in takes place before bankruptcy and under current proposals, certain types of depositors would suffer a reduction in the amount of their deposit that would be returned to them whilst other classes of investor would not.

Treasury Management and Prudential Indicators Frequently Asked Questions

1. What is the difference between capital expenditure and capital financing requirement?

Capital Expenditure is defined as expenditure on the acquisition, creation or enhancement of tangible fixed assets, subject to a de minimis level of £10,000. It includes expenditure on land, buildings and vehicles.

The Capital Financing Requirement (CFR) is the level of total funding that is required to fund the capital programme. The actual level of external borrowing may be lower than the CFR as a consequence of the use of internal borrowing. Internal Borrowing occurs when the Council temporarily uses its own cash resources to finance capital expenditure rather than arranging new external borrowing. This is a prudent approach when investment returns are low and counterparty risk is high.

2. What does the term 'financing' mean?

The term 'financing' does not refer to the payment of cash but the resources that will be applied to ensure that the capital payment amount is dealt with over the longer term. A number of financing options are available to Councils:-

- capital receipts (e.g. sale of land or buildings)
- contribution from revenue expenditure
- capital grant
- contribution from a third party
- borrowing
- contribution from earmarked reserves

3. Does the Council link long term loans to particular capital assets/projects?

The Council does not directly associate loans with particular capital assets/projects, as it is not best practice. The Council will, at any point in time, have a number of cash flows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy and practices. This is best practice in line with the CIPFA Prudential Code.

4. What does the term 'net borrowing should not exceed the total of the CFR' mean?

Net borrowing will remain below the CFR to ensure that the Council is only borrowing for a capital purpose. The Council is permitted to borrow in advance for a capital purpose over the medium term. The term 'total of the CFR' is the CFR of the current year plus increases in the CFR of the previous financial year and next two financial years. In other words, the total of the Council's existing assets, plus additions to assets resulting from forecast Capital Programme expenditure, e.g. vehicles. This gives the Council some headroom to borrow early for a capital purpose in order to secure low interest rates.

5. Is the cash that is being managed in-house revenue or capital?

The short term surplus cash that is managed during the year in house may be revenue or capital, e.g. the Council may receive a capital receipt in April but capital expenditure is incurred throughout the year which gives rise to increased cash balances in the early part of the financial year which is invested short term by the in house treasury team. The Council receives Council Tax which is classed as revenue income. Council Tax income is typically received in the months of April to January as Council Tax payers make 10 instalments. Therefore, the Council has less cash in the months of February and March and may need to borrow cash short-term in line with the cash flow forecast.

6. What does the Council invest in?

The Council is restricted in where it can invest its surplus funds. The restrictions are prescribed by statute (Local Government Act 2003 section 15(1) (a)). Councils are also required to have regard to supplementary investment guidance provided by the Communities and Local Government.

The Council's investments are typically short term, i.e. less than a year, and are made in sterling with institutions with high credit ratings. This is in accordance with the Treasury Management Strategy approved on the 2nd March 2016.

7. What is the role of internal and external auditors in respect of treasury management?

The focus of external auditors work is a Council's annual accounts and the financial management systems and processes that underpin them. The external audit will enquire as to whether the Treasury Management Code has been adopted and whether its principles and recommendations have been implemented and adhered to. External auditors cannot comment or advise on Council's treasury management strategy or policies

Through a process of review, the role of Internal Audit is to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are sufficiently mitigated. This will assist Treasury Management in meeting its desired objectives and help to ensure that the risk of fraud and/or error is minimised. Internal Audit will also look to identify other areas of potential risk which could usefully be included as well as any inefficiencies in existing processes and procedures where improvements can be made. Treasury Management is one of the core financial systems and as such is audited on a cyclical basis.

8. What are the qualifications of Council staff involved in treasury management practices?

Staff are either working towards or have achieved professional accountancy qualifications from CIPFA (Charted Institute of Public Finance Accountants), ACCA (Association of Chartered Certified Accountants) or CIMA (Chartered Institute of Management Accountants). Staff work closely with Treasury Management Advisors and attend treasury training and updates provided by the Treasury Management Advisor

Appendix B

Prudential Indicators

1.1 Capital Expenditure

Table 1 shows the revised forecast capital expenditure as reported in the latest Capital Programme Monitoring Report 2016/17 as compared to the capital expenditure originally approved by Council.

Table 1 Forecast Capital Expenditure

Forecast Capital Expenditure	2016/17 Original Indicator £M	2016/17 Latest Estimate £M
Total	7.1	6.6

The above table shows the forecast capital expenditure on new projects. The decrease in the latest estimate is mainly a consequence of the net effects of slippage from 2015/16 into 2016/17, re-phasing of the Coast Protection Scheme from 2016/17 to 2017/18 and the addition of new schemes for Affordable Housing and M55 Link Road plus increased DFG grant allocation.

1.2 Capital Financing Requirement (CFR)

Table 2 shows the CFR which is the total of all of the Council's capital assets (existing and planned) less all of the Council's capital reserves. This is the amount of capital expenditure that the Council has still to finance. The CFR is normally funded by external borrowing. The Council has borrowed £1M and there is a requirement to finance £4.5M from internal cash resources.

Table 2 Capital Financing Requirement (CFR)

	2016/17 Original Indicator £M	2016/17 Latest Estimate £M
Total CFR	5.6	5.5

The latest estimate of the CFR is lower than the original approved indicator due to the re-phasing of vehicle purchases as part of the capital programme.

1.3 Gross Borrowing

The Council needs to ensure that its total capital borrowing does not, except in the short term, exceed the total of the CFR. Table 3 below shows that the Council will be able to comply with this requirement.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR. Revenue borrowing may be incurred for short periods in line with cash flow requirements.

Table 3 Gross Borrowing

	2016/17 Original Indicator £M	2016/17 Revised Indicator £M
Gross Borrowing Indicator	5.6	1.0
Short Term Borrowing (Revenue)	0	0
Gross Borrowing (Capital)	**5.6**	**1.0**
CFR	**5.6**	**5.5**
Under Borrowing (Capital)	**0**	**4.5**

The Gross Borrowing Indicator has decreased as the Council is forecast to be able to fund the capital borrowing requirement with internal borrowing and does not expect to require new external borrowing during 2016/17, in line with advice from Treasury Advisors.

1.4 Operational Boundary and Authorised Limit for External Debt

The Operational Boundary is based on the maximum external debt during the course of the year. It is not a limit and therefore may be exceeded on occasion.

The Authorised Limit for external debt represents the limit beyond which borrowing is prohibited, and is set and revised by Council. It reflects the level of borrowing which, in extreme circumstances, could be afforded in the short term. This is a statutory limit which should not be breached.

There were no breaches to the Authorised Limit and the Operational Boundary to 30th September 2016.

Table 4 Operational Boundary and Authorised Limit for External Debt

	2016/17 Original Indicator £M	2016/17 Revised Indicator £M	Note
Existing Capital Borrowing	5.6	1.0	1
Gross Borrowing Indicator	**5.6**	**1.0**	
Operational Boundary	**5.6**	**1.0**	1
Contingency	6.0	6.0	2
Authorised Limit	**11.6**	**7.0**	

Notes

1. The Gross Borrowing Indicator and Operational Boundary have decreased as the Council is able to fund the capital borrowing requirement with internal borrowing and does not expect to require new external borrowing during 2016/17.

2. The Authorised Limit includes £6.0M for 'contingency' which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or emergency, e.g. a failure to collect council tax income.

1.5 Forecast Treasury Position

Table 5 shows the expected balances for investments and debt at 31st March 2017.

Table 5 Forecast Treasury Position

At 31st March	2016/17 Estimate £M	2016/17 Revised £M
Debt (Long-Term External Borrowing)	1.0	1.0
Investments	9.4	10.6

The Council has not undertaken any new external long-term borrowing as it is funding capital expenditure with internal borrowing (see Section 3 of the report).

The forecast investments position has been updated to reflect the latest changes to the movements in reserves, provisions and capital expenditure.

1.6 Forecast Interest

Table 6 shows the impact on the revenue budget of interest payable and investment income.

Table 6 Forecast Interest

Revenue Budget	2016/17 Estimate £M	2016/17 Revised £M
Interest payable on Borrowing	0.049	0.049
Investment Income	0.071	0.082

The interest payable budget has remained the same as the Council is funding capital expenditure with external borrowing. The interest receivable budget will be revised to incorporate a combination of higher cash balances and improved investment returns during the year.

1.7 Adoption of the CIPFA Treasury Management Code

The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 1st December 2003, and adopted the revised Code on 1st March 2010.

1.8 Limits on Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Table 7 Interest Rate Exposures

	2016/17 Original Indicator £M	2016/17 Revised Indicator £M
Limits on fixed rate debt	6.30	1.0
Limit on variable rate debt (50% of total debt)	3.15	0.5

The limits have decreased as the Council is able to fund the capital borrowing requirement with internal borrowing and does not expect to request new external borrowing during 2016/17.

1.9 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing cost (interest payable less interest receivable) as a percentage of the net revenue stream as shown in Table 8.

Table 8 Ratio of Financing Costs to Net Revenue Stream

	2016/17 Original Indicator	2016/17 Revised Indicator
Ratio	6.7%	6.4%

Financing costs are based on the amount of interest payable and receivable as a percentage of the total net revenue stream of the Council. The latest estimate is lower than the original estimate due to the current treasury strategy of internal borrowing rather than long-term external borrowing and an improved return on investment income.