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# Regulatory and Audit Committee
# 28 January 2014

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# Regulatory & Audit Committee

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|---|---|
| **Title:** | **Audit and Risk Management Progress Report and Q4 Plan** |
| **Date:** | 28 January 2014 |
| **Author:** | Chief Internal Auditor |
| **Contact officer:** | Ian Dyson, 01296 387327 |
| **Local members affected:** | n/a |

*For press enquiries concerning this report, please contact the media office on 01296 382444*

## Summary

This report sets out the progress with the 2013/14 Internal Audit Plan, and the planned activity for Q4. Summaries of completed audits are attached as an appendix to the report.

There are three "Limited" assurance reports that have been issued, one is in respect of school audit, the other two are in respect of major contracts.

## Recommendation

**The Committee is recommended to note the report**

### Resource implications

None

### Legal implications

None

### Other implications/issues

None

**Feedback from consultation, Local Area Forums and Local Member views (if relevant)**

Not applicable

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**Background Papers**

None

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## AUDIT & RISK MANAGEMENT SERVICE

## INTERNAL AUDIT PROGRESS REPORT AND QUARTER 4 PLAN 2013/14

### Introduction

1. The Internal Audit Plan for Quarter 4 is attached as appendix 1 to this report, and includes a progress status on the previously reported planned activity.

### Resources

2. We have extended the Principal Auditor secondment to April 2014. This will support on the completion of the Audit Plan. In addition we have commissioned an IT Audit specialist. He has completed an IT Audit needs assessment, and during Q4 will be undertaking an assurance mapping exercise against the areas identified in the needs assessment.

### Completed Audits

3. There have been 9 audits completed since the last report. A further 5 audits are at draft report stage. Summaries of the completed audits are attached as appendix 2.

4. The following audits have been completed:

| Service | Audit | Opinion |
|---|---|---|
| CYP | 6th Form Grant Funding | Complete - no material issues or concerns |
| AFW | Governance Establishment (Coroner Service) | Reasonable |
| CBE | ADEPT Accounts | Complete - no material issues or concerns |
| RBT | Growth and Optimisation Gateway Review | Complete - no material issues or concerns |
| RBT | Review of Charges | Reasonable |
| CYP | Pebble Brook School | Limited |
| RBT | Capital Programme Slippage | Complete - recommendations for |

| | | |
|---|---|---|
| | | improvement |
| CYP/CBE | AMEY Contract | Limited |
| Please note for the above audit the summary of findings is provided under separate cover to be considered in closed session. | | |
| CBE | Highways Contract - Capital Maintenance | Limited |

*Definition of Opinion Ratings:*

| | |
|---|---|
| SUBSTANTIAL: | There is a sound system of internal control in which risks are being managed to acceptable levels |
| REASONABLE | There is generally a sound system of internal control, however some significant risks have been noted and there is therefore the possibility that some objectives will not be achieved |
| LIMITED | The system of internal control is generally weak, and the exposure to risk is such that it is probable that objectives will not be, or are not being achieved. The system is open to the risk of significant error or abuse. |

**Other Audit Activity**

5. The Purchase to Pay project is on-going The Chief Internal Auditor is on the project board; however, in addition the Audit Manager is providing advice and support to the project, which in time will include reviewing the controls being considered in the design of new systems and processes.

6. The Finance Business Partner (CYP) and the Chief Internal Auditor are currently reviewing the system of assurance to the Chief Finance Officer in relation to financial management in schools. This work is scheduled to conclude by the end of March 2014.

**Counter-Fraud update**

**<u>Investigations</u>**

7. The following are current or completed investigations since the last report:

Vodafone – There were three suspected irregularities in respect of relatively low value expenses incurred on mobile phones. We have had to close these cases due to a lack of evidence. It is thought that the phones have been disposed of and, due to poor control; a block was not put on the cards resulting in someone finding them and making the calls abroad. An audit of the system for managing mobile phones has been undertaken as a result and is currently at draft report stage.

Change of Bank Details – The council has been subject to attempted fraud by external fraudsters. Approximately £50k was paid to a fraudulent account. The monies have been recovered in full and the case is currently with the Police for investigation

Cashing of Cheques - There is an on-going investigation into irregular encashment of cheques within a school. The HR process is being followed, and in addition a full audit of the financial management in the school is to be programed in.

**NFI Update;**

Total number of matches for BCC – 14,551
Total of which have been recommended we look at as a priority – 3,284
Total number complete/currently being processed – 253

There were a large number of duplicate creditor matches (7,729), these have been closed altogether/not reviewed individually as it was deemed a duplication of work and crossed over with the work undertaken recently to review all duplicate creditor payments.

Update by area;

Pensions – Majority of the recommended matches have been looked at.
Payroll – Small number of matches have been reviewed. Potentially serious matches, such as visa/immigration matches were reviewed as a priority and have been closed.
Blue Badges and Concessionary Travel Passes – No matches have been reviewed.
Private Residential Care Home – No matches reviewed.
Insurance – All matches reviewed.
Creditors – A small number of recommended matches outside of the duplicate payments bulk have been reviewed.

There are no matters to report from the matches checked to date.

Ian Dyson
Chief Internal Auditor
January 2014

**APPENDIX 1 Regulatory & Audit Committee 28 January 2014 - Progress against Quarter 3 Plan 2013/14 & Quarter 4 Plan**

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| General | 1 | **Annual Governance Statement**<br>We will be analysing the self-assessment Annual Governance Statement questionnaires returned from Service Directors. This will form key evidence for the production of the Annual Governance Statement. The Chief Internal Auditor will also be liaising with the Corporate Leads on the key control processes in compiling the AGS. | **Completed – AGS signed** |
| General | 1 | **Assurance Mapping**<br>This work has started and will be piloted in Oxfordshire. Once the first review in Oxfordshire has been completed the model will be tested at BCC. | On-going |
| Corporate | 1 | **Health and Safety (Legislation)**<br>Carried forward from 2012/13 this audit will review the system for ensuring statutory responsibility for Health and Safety is being effectively managed. | **Final Report - Reasonable** |
| Corporate | 3 | **Governance and Financial Management**<br><br>This element of the governance and financial management audit focuses on the effectiveness of the corporate processes in place. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources.<br>• Legislation. | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | • Procurement.<br>• Information Governance.<br>• Project Management.<br>• Partnerships.<br><br>The outcome of the audit will be reported accordingly, enabling Service Directors to complete their self assessment as part of the annual governance process. | |
| Corporate | 4 | **Payroll**<br><br>The Payroll process from starter to leaver is managed by HR and the 'Reward' and 'Employee Lifecycle' Teams which are part of the Support Services Centre. Payroll services are also provided by Bucks County Council to external organisations and some academy schools. Following on from last year's audit and other issues identified there is a Payroll Project Team in place to monitor the progress of any necessary actions. | Fieldwork |
| Corporate | 4 | **General Ledger**<br><br>The Council's objective for the system is to ensure that the internal controls for the monitoring of the General Ledger are adequate and effective. This audit will include a follow up of the previous audit completed in April 2013. The General Ledger system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives. | Scoping |
| Corporate | 4 | **Accounts Receivable (incl. Cash Receipting)**<br><br>The Council's objective for the system is to ensure that the internal controls for the monitoring of Accounts Receivable are adequate and effective. The | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | Accounts Receivable and Income Management system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives. | |
| Corporate | 4 | **Accounts Payable**<br><br>The Council's objective for the system is to ensure that the internal controls for the monitoring of Accounts Payable are adequate and effective. The Accounts Payable system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives. | Scoping |
| CYP | 1 | **Mandeville School**<br><br>A request was received to undertake a full audit of Mandeville School, following the issue of a Notice of Concern, due to a significant year end overspend. The audit will focus on the following areas:<br><br>• Governance.<br>• Financial Management (budget setting and budget monitoring).<br>• Financial Control.<br>• Payroll.<br>• Procurement, contracts and leases.<br>• Accounts Payable.<br>• Purchasing Card.<br>• Imprest. | **Final Report – Limited** |
| CYP | 1 | **Bucks Learning Trust**<br>The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational | This work is on-going |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | systems and procedures being designed for the operation and management of the contract with the LATC. | |
| CYP | 2 | **Schools Thematic (Budget Setting and Budget Monitoring)**<br>The original audit has been suspended and replaced by an analytical review of the 2011/12 and 2012/13 budget information for all schools in Buckinghamshire, identifying trends and issues. The evidence will be used to inform a service led review of the S151 system of assurance over financial management in schools, including a review of roles and responsibilities. That review is being managed as a project, sponsored by the Chief Internal Auditor and led by the Finance Business Partner. | Project initiated |
| CYP | 2 and 4 | **Families First**<br><br>This work involved a review of the governance arrangements and data control processes in place in order to verify and sign off the grant claim for the government's Troubled Families results-based payments claim. | **Q2 - Complete**<br><br>Q4 - Verification of second claim to be carried out January 2014 |
| CYP | 2 | **Care Management Controls**<br><br>The main focus of the audit will be to review the monitoring mechanisms in place which provide assurance that key processes to safeguard children are working effectively. | Fieldwork complete, draft report to be issued |
| CYP | 2 | **Schools Admissions**<br><br>The audit involved a review of the adequacy and effectiveness of the system of internal controls over the School Admission process for September 2013 Primary and Secondary school entry. | **Final Report - Substantial** |
| CYP | 2 | **SEN Follow Up** | To be completed in |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | | Q4 |
| CYP | 3 | **Schools Thematic (Payroll & Recruitment)**<br><br>This audit is a thematic review of the payroll and recruitment processes in place within schools. The audit will involve visiting a sample number of schools to review their processes, as well as the involvement and system in place centrally. | Removed – review replaced by individual school audits |
| CYP | 3 | **6th Form Grant Funding**<br><br>This audit will involve a review of the accuracy of the Local Authority's 16-19 Grant Return. | **Complete** |
| CYP | 3 | **Follow Up of Schools Audit Actions**<br><br>This work will involve following up the audit actions agreed as part of the 2012/13 school visit audits. | Removed – review replaced by individual school audits |
| CYP | 3 | **Pebble Brook School**<br><br>The audit of Pebble Brook School is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks. | **Final Report - Limited** |
| CYP | 3 | **Iver Village School**<br><br>The audit of Iver Village School is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks. | Draft Report |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| CYP | 4 | **School Visit 3 – TBC**<br><br>The school audit (TBC) is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks. | To start |
| CYP | 3 | **Governance Establishment (Aftercare Team)**<br><br>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | Fieldwork |
| CYP | 3 | **Governance and Financial Management**<br><br>This is an annual audit to review governance and financial management arrangements in place within the service areas. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources.<br>• Legislation. | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | • Procurement.<br>• Information Governance.<br>• Project Management.<br>• Partnerships.<br><br>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |
| AFW | 1 | **Local Authority Trading Company**<br>The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational systems and procedures being designed for the operation and management of the contract with the LATC. | This work is on-going |
| AFW | 1 | **Fuel Poverty Grant**<br><br>This work is an audit of the allocation of the DECC Fuel Poverty Grant, reviewing the supporting documentation that details how the grant has been allocated and spent. | **Complete** |
| AFW | 2 | **Safeguarding**<br><br>The main focus of the audit will be to review the monitoring mechanisms in place which provide assurance that key processes to safeguard vulnerable adults are working effectively. | Fieldwork complete, draft report to be issued |
| AFW | 3 | **Governance Establishment (Coroner Service)**<br><br>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and | **Final Report - Reasonable** |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |
| AFW | 3 | **Governance Establishment (Community Hospital Team)**<br><br>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | Draft Report |
| AFW | 3 | **Governance and Financial Management**<br><br>This is an annual audit to review governance and financial management arrangements in place within the service areas. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources.<br>• Legislation.<br>• Procurement.<br>• Information Governance.<br>• Project Management. | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | • Partnerships.<br><br>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |
| CBE | 1 | **Joint Waste Committee Return**<br><br>This work is an audit of the Annual Return 2012/13 for the Buckinghamshire Joint Committee on Waste. | **Complete** |
| CBE | 1 | **AMEY Contract** | **Final Report - Limited** |
| CBE | 1 | **Highways Contract - Capital Maintenance** | **Final Report - Limited** |
| CBE | 2 | **ADEPT Accounts**<br><br>This work is an audit of the Association of Directors of Environment, Economy, Planning & Transportation accounts, of which the Strategic Director, Communities and Built Environment, is the Honorary Secretary & Treasurer. | **Complete** |
| CBE | 2 | **Capital Programme Management**<br>This audit was requested by the Cabinet Member. The audit will review how the schemes in the programme are being managed, with particular focus on project slippage. | **Completed - Recommendations made** |
| CBE | 3 | **Governance and Financial Management**<br><br>This is an annual audit to review governance and financial management arrangements in place within the service areas.. The programme of work will be completed over the remainder of the year, and will include testing on | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources.<br>• Legislation.<br>• Procurement.<br>• Information Governance.<br>• Project Management.<br>• Partnerships.<br><br>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |
| CBE | 4 | **Governance Establishment (Drug Action Team)**<br><br>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | Scoping |
| CBE | 4 | **Property Mobilisation**<br><br>This is a review of processes being developed in line with the new structure at | Scoping |

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| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | the request of the Senior Manager (PLACE). | |
| RBT | 1 | **Vodafone**<br><br>The audit will document the current processes in place for administering and monitoring the use of Vodafone mobile phones across the Council. | Draft Report |
| RBT | 2 | **Growth and Optimisation Gateway Review**<br><br>The Support Services Transformation Programme commenced in 2010. An outline Business Case for Growth and Optimisation was presented to Members in July 2012. The Internal Transformation, with Selective Partnering or Outsourcing, was agreed by Members as the preferred way forward and an updated Business Case was approved in April 2013.<br><br>The work will involve a gateway review of the programme to assess the robustness of the Business Case, programme governance, project management and strategic fit with the Council's objectives. | **Complete** |
| RBT | 2 | **Review of Charges**<br><br>The audit will review how charges made by the Council comply with legislation and regulations and how those charges are aligned to the Income Generation Strategy. At an operational level the audit will consider the application of those charges and for a sample the systems for collection of fees charged. | **Final Report - Reasonable** |
| RBT | 2 | **Income Collection (Zipporah)**<br><br>Following on from the Review of Charges audit, this review will evaluate the effectiveness of how the Council's income collection system (Zipporah) is utilised. | Scoping |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| RBT | 2 | **Payroll Project**<br><br>Following the "Limited" Payroll audit report for 2012/13, a project was initiated to address the issues identified.<br><br>This work will oversee project progress, advising on the controls being implemented and the overall delivery of the project. The work will also inform the 2013/14 Payroll review. | Ongoing |
| RBT | 2 | **Purchase to Pay Project**<br><br>This work will support the Purchase to Pay Project, advising on any revisions to procurement processes. The work will also aim to ensure the appropriate control mechanisms are in place, prior to their submission to the Project Board for approval. | Ongoing |
| RBT | 3 | **Governance and Financial Management**<br><br>This is an annual audit to review governance and financial management arrangements in place within the service area. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources. | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
| --- | --- | --- | --- |
| | | • Legislation.<br>• Procurement.<br>• Information Governance.<br>• Project Management.<br>• Partnerships.<br><br>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |
| RBT | 3 | **Treasury Management**<br><br>The Treasury Management Team manages the Council's investments and cash flows, its banking, money market and capital market transactions. This includes the effective control of the associated risks and the pursuit of optimum performance consistent with those risks. | Draft Report |
| RBT | 4 | **Pensions**<br><br>The Council's objective for the system is to ensure that the system of internal controls for the monitoring of Pensions is adequate and effective. The Pensions system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives. | Fieldwork |
| PPC | 3 | **Governance and Financial Management**<br><br>This is an annual audit to review governance and financial management arrangements in place within the directorate. The programme of work will be completed over the remainder of the year, and will include testing on | Fieldwork |

| Directorate | Qtr Start | Audit | Progress as at 20 January 2014 (Bold = complete) |
|---|---|---|---|
| | | compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:<br><br>• Authority and Governance.<br>• Risk Management.<br>• Financial Management.<br>• Performance Management.<br>• Human Resources.<br>• Legislation.<br>• Procurement.<br>• Information Governance.<br>• Project Management.<br>• Partnerships.<br><br>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process. | |

**APPENDIX 2 Summary of completed audits**

**Note for information:**

We categorise our management actions according to their level of priority:

| | |
|---|---|
| High | Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management. |
| Medium | Significant issue that requires prompt action and improvement by the local manager. |

**REVIEW OF CHARGES - REASONABLE**

The audit activity focussed on the following key risk areas identified in the processes relating to the charging system:

A: Policies and procedures

- There is no approved policy in place that sets out the overarching framework for establishing fees and charges across BCC.
- The charging policy is not aligned to the approved Income Generation Strategy.

B: Service area charging

- The charging policies operated by the service areas do not comply with the Corporate Charging Policy, charges applied may be inconsistent with the Council’s objectives to increase access to services and / or maximise income.
- Fees charged do not comply with statutory requirements or are not in accordance with fairer charging.
- Fees charged by the service areas are not reviewed and uplifted as necessary on an annual basis.
- Proposals for new charges are not approved by the relevant Cabinet Member.

C: Application of charges

- Fees are not charged at the correct rate and/or in a timely manner.
- Systems for the collection of fees are inadequate.

The audit covered corporate policies in place and charging in the following areas:

- Culture and Learning - Registrars - Approved venue ceremonies and citizenship ceremonies.
- Culture and Learning - Adult Learning – Adult Education Income.

- Culture and Learning - Libraries – book fines and reservation fees.
- Place - Countryside and Heritage – Agricultural Estate rents.
- Place - Planning, Environment and Development - Planning fees.

### Overall Conclusion

Our overall conclusion is **reasonable**. Internal Audit identified that there is generally a sound system of internal control in place.

There are approved and up to date policies in place for Charging, Trading and Income Generation and these are available to staff on the Intranet. However a directory of charges has not been published on the Internet.

In the areas tested there are charging policies in place where appropriate; fees are reviewed on a regular basis and these are available on the Buckinghamshire County Council website. However the new course registration fee introduced for 2013/14 for Adult Learning courses was not approved by the Cabinet Member.

Charges made by the service areas agree to the published fees. However the banking process for Adult Learning payments made by cash and cheques is not robust. There are a large amount of outstanding fines, £196,276, for overdue items borrowed from libraries, these date back several years.

There are 2 'High' priority actions and 2 'Medium' priority actions agreed following this audit.

**GOVERNANCE ESTABLISHMENT (CORONER SERVICE) – REASONABLE**

The audit activity focussed on the following key areas:

- Policies and procedures
- Budgetary control
- Payroll
- Human Resources
- Procurement
- Income/banking
- Assets
- Information security
- Imprest accounts
- Business Continuity
- Risk Management
- Performance Management
- Project Management
- Partnerships

Internal Audit identified that there is generally a sound system of internal control in place. Risks are being mitigated to acceptable levels, except for the risks noted. The key areas related to the following:

- Reminders not being issued for staff to declare any gifts or hospitality.
- The lack of an annual review of officers who are in receipt of Critical Car User Payments.
- The current version of the Culture and Learning scheme of delegation not being on the intranet and an inconsistency between the service manager's approval limit in the scheme and on SRM.
- Improvements in the visibility of the purchase order approval process.
- Receipts needing to be retained in all instances for purchasing card transactions.
- Improvements in the content of the Culture and Learning inventory.
- Access to inquest files needing to be secured.
- The Business Continuity Plan for the Coroner's Team needing to be updated.

There are 2 'High' priority actions and 8 'Medium' priority actions agreed following this audit.

## PEBBLE BROOK SCHOOL – LIMITED

The audit activity focussed on the following key risk areas identified in the processes relating to the School:

- Governance.
- Financial Control (budget setting and budget monitoring).
- Payroll.
- Procurement, contracts and leases.
- Accounts Payable.
- Purchasing Card.
- Income and cash management.
- Imprest.

### Overall Conclusion

The overall conclusion is Limited. The system of internal control is generally weak with poor financial management, and therefore an unacceptable exposure to the risk of poor financial performance and to the risk of fraud or error. Risks have not been adequately identified and the controls in place do not mitigate the risks to an acceptable level. The controls that are in place are not being monitored effectively. Although there is no evidence of fraud the control system is weak and could be open to abuse.

The School has not managed the budget deficit effectively and there are weaknesses in budget setting and budget monitoring process. In 2012/13 the School had increased expenditure in some areas without a subsequent reduction in other areas. There is evidence that the Corporate Services Committee could be more proactive in the budget monitoring process and be more effective in challenging and holding senior leaders to account for all aspects of the School's financial performance and ensuring financial stability.

There are many instances where the School are not adhering to the Local Management Handbook (LMH) in regards to contracts, procurement and purchasing cards. Purchases are made without consideration of allocated budget limits and whether value for money is achieved.

The internal governance arrangements are weak, and it would appear the level of scrutiny and financial stewardship by the Governing Body, including Corporate Services Committee is not satisfactory.

There are 22 'High' priority actions and 17 'Medium' priority actions agreed following this audit.

## CONTRACT AUDIT REVIEW OF CAPITAL PROGRAMME SLIPPAGE

A review of the Capital Programme is a high level review and was undertaken during September / October 2013. This review has been undertaken at the request of the Cabinet Member for Finance and Resources and the Service Director (Finance & Commercial Services) to consider the management of the Council's Capital Programme that for 2013 /14 will be £112,268,000 with a specific focus on what contributes towards Capital Programme slippage.

The following projects were used as our sample:

Skills Centre Chesham
Furze Down School
High Heavens Waste Transfer
Berryfields Primary School

We interviewed staff responsible for capital accounting for their viewpoints on capital expenditure planning and met with the Chief Information Officer to gain a high level overview of how ICT capital expenditure is monitored and managed. Based on the information provided, we felt that controls in project management for ICT followed recognised practice.

The findings from this review have been discussed with Cllr Hardy, Richard Ambrose, and Gill Hibberd, with a further contribution from Chris Williams; the recommendations contained in this report are the outcome of those discussions.

### Findings and Conclusion

Overall we concluded that there are weaknesses in the way the Capital Programme is managed with the key issues summarised as follows:

- The point of entry for a scheme onto the Capital Programme is based on an annual bidding process. The timetable to meet this process may not be compatible with the development of the Business Case leading to financial estimates being offered as opposed to reasonable cost certainty, scheme tolerance identified, risk understood and dependencies being fully documented;

- Some project bids are for sums of money that are not linked to a specific project but a projected need. For example additional provision of primary school places is difficult to monitor as it is not hypothecated to a single capital purchase but potentially a number of purchases, such as temporary classrooms, for a number of schools over more than one financial year;

- The format of business cases, capital programme monitoring and overview of progress is based on “cost” as opposed to the other parts of the project management triangle of “time and quality”. In particular, the projects reviewed did not have a clear understanding of tolerance other than cost. Understanding the impact of risk or documenting dependencies with countermeasures would appear to be limited. Reports to BIG showing programme slippage were not accompanied by action plans to show how the slippage could or would be compensated for to achieve delivery timescales. In particular the escalation of recurring delays across the programme does not appear to have been undertaken;

- Scope change that in turn could impact delivery timescales or the impact of dependencies, is not approved or clearly understood at a strategic level as the focus of the project team is on meeting the financial envelope; and

- An understanding of project delays that is then used to improve project methods through risk management countermeasures or post project review is not formally recorded.

We also noted that an approved project had been commenced on site without a signed contract. The reason for the haste to commence was that slippage had already occurred and the window for completion had narrowed. This breach of Contract Standing Orders is a consequence of project timescale slippage.

The above points are a synopsis of the findings that are all interlaced around the role of BIG and how the monitoring or progress of a capital project should be undertaken through the programme. One outcome from the review could be an assessment of the overall governance and higher level management structure that could be developed to improve delivery performance. Although project management methodology is applied, the overview of a project through programme showing where the project is against a Gateway process to give BIG a better strategic overview does not currently occur.

**Recommendations:**

The following recommendations are for the consideration/agreement of BIG who is asked to nominate an officer responsible and timescale for taking agreed actions forward.

It is **RECOMMENDED** that:

a) BIG adopts a gateway monitoring process for the Capital Programme, consistent with that adopted by the Commercial Services Board.

b) The starting point for a project entering the Capital Programme (gateway 0) is a report presented to BIG in standard format setting out:

- Project outline;
- strategic fit;

- risk and dependencies that could impact delivery and countermeasures;
- outcomes being sought not just in terms of like for like replacement but in capacity, size, savings or service improvement;
- size of initial feasibility study and timescales for the next or each gateway.

c) The agreement to individual projects should include an overall cash envelope in consideration of the need. Authority to spend should be restricted initially by a fixed amount for completion of the feasibility study and detailed design. Future sums within the agreed cash envelope should be released as the project progresses, controlled by the gateway process.

d) BIG routinely receives a monitoring report showing the gateway progress for all capital schemes, with a defined escalation process to BIG where any schemes have moved outside the agreed scope, time or cost tolerance levels.

e) Schemes entering the Capital Programme should have realistic timeframes that have been calculated in line with the risk and dependencies assessment. This includes where cash envelopes are initially agreed for strategic management purposes. BIG should receive monitoring reports for these items, ensuring that the allocation of funding once specific works have been identified follows the same gateway disciplines as defined above.

**Strategic Recommendations:**

BIG should consider the following recommendations to the Future Shapes Programme:

f) The Commercial Services Board should be combined with BIG to provide a single governance body, overseeing and challenging capital and revenue projects.

g) A full time Senior Manager Role of Capital Programme Manager should be established within the Business Enterprise Unit being considered under the Future Shapes Programme, with specific responsibility for the delivery of the Capital Programme, accountable to BIG.

**HIGHWAYS CONTRACT - CAPITAL MAINTENANCE (LIMITED)**

**Scope of work**

The audit activity focussed on the following key risk areas appertaining to the contract and how these risks are being mitigated to ensure that economy, efficiency and effectiveness is being delivered in the contract framework:

- Accounting process and procedure mitigates potential poor partnership working leading to financial loss;
- Objectives of the partnership are clearly understood to aid delivery in order to limit financial or reputational risk; and
- Governance and management of the main contract includes sufficient flexibility to respond to changing circumstances, formal review points and sufficient management information to mitigate the financial risk of contract failure.

**Overall Conclusion on the Capital Maintenance Programme**

The Audit was undertaken between May and July with further work undertaken in October and November 2013 and since that time the Transport for Bucks (TfB) team have undertaken their own internal review and they have prepared an improvement plan. Accordingly, the existing audit concerns can be mapped against the improvement plan and the subsequent Environment Transport and Localities Select Committee recommendations. Also, an extract from the Audit report has been shared with Ringway Jacobs (RJ) and they have prepared an action plan in response.

Our overall conclusion is based on the work undertaken earlier in the year and has been highlighted as LIMITED. The system of internal control is generally weak, and the exposure to risk is such that it is probable that wider corporate objectives will not be, or are not being achieved. The system is open to the risk of significant error or abuse. Risks have not been adequately identified and/or are poorly managed at project level and are not adequately shown to be informing programme level risk. The concerns outlined below can be summarised as arising from the structure of the sub contract as opposed to a specific failure in contract management. Issues arising in the report can be viewed as:

- an unclear application of project management methodology by the contractor prevents the client from effectively challenging the development of project associated costs;
- a lack of transparency over how costs or activity is accounted for due to project scope change and inconsistent methodology used by the contractor in developing or monitoring individual projects;
- presentation of contract management information and the interpretation of the contract by the contractor in areas such as disallowed costs can lead to challenge or dispute; and

- contractor methodology is not in line with expected industry standards. Specifically the timely sign off of completed works and commencing the defects period.

The main issue with all of the above points is that transparency in the project management process in the capital maintenance programme can become clouded leading to the client or the contract management team having a poor understanding of individual project costs. There is also a risk of irregularity if a scheme has not been clearly scrutinised by the contractor project managers and proven through a robust project management methodology. Partnership gains such as benchmarking, aggregated discounts for bulk purchase of material and the consistent application of a clear project management methodology all assists with improved delivery, contract management and value for money being achieved through the partnership.

The agreed management actions are aimed at improving the quality of Contract Management and raising the standard of project management within the highways capital maintenance programme practised by the contractor Ringway Jacobs but in particular to encourage the application of controls by project managers. Specifically, to ensure that the procurement of task order process has a higher degree or transparency to give the contract management team improved cost and quality visibility going forward.

All of the above can be traced back to the interpretation of the contract by the contractor and their engagement with the supply chain in a transparent manner.

There are 2 'High' priority actions and 9 'Medium' priority actions agreed following this audit.

# Report to Regulatory and Audit Committee

**Title:** **Treasury Management Strategy Report 2014/15**

**Date:** **28 January 2014**

**Date Decision can be implemented:** **n/a**

**Author:** **Pensions & Investments Manager**

**Contact Officer:** **Julie Edwards 01296 383910**

**Electoral Divisions Affected:** **n/a**

**Portfolio Areas Affected:** **All**

**Relevant Overview and Scrutiny Committee:**

## Summary

The purpose of this report is for the Regulatory and Audit Committee to consider the Council's Annual Treasury Management Policy Statement, Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15 before it is submitted to Council at its meeting on 13 February 2014.

### Recommendation

**The Committee are asked to RECOMMEND to Council the Treasury Management Policy Statement, Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014/15, together with the Prudential Indicators for the next four years.**

### A. Narrative setting out the reasons for the decision

**Supporting Information**

1. The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice 2011 edition (the CIPFA Code) on 1 April 2012, the Code defines Treasury Management as:

   *the management of the organisation'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 the optimum performance consistent with those risks.*

2. The Council is required under Section 15 of the Local Government Act 2003 to approve an Annual Investment Strategy before the start of each financial year. In accordance with best practice the Council combines the Annual Investment

Strategy with its Treasury Management Strategy Statement. The general policy objective is to ensure that surplus funds held on behalf of the Council are invested prudently. The Strategy Statement covers the requirements of the Department for Communities and Local Government (DCLG) guidance on Local Government Investments which was revised in 2010.

3. The Secretary of State issued Guidance on Minimum Revenue Provision under section 21(1A) of the Local Government Act 2003 which requires an annual statement on the Council's debt repayment policy: its Minimum Revenue Provision is submitted to the full Council for approval before the start of the financial year to which the provision will relate. Minimum Revenue Provision is defined as being the contribution from revenue to cover the unfinanced borrowing that has been undertaken to support the capital programme.

4. The Treasury Management Policy Statement, Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15, are attached as Appendix 1, changes from the 2013/14 Strategies are highlighted in grey. Deletions from the previous policy have a line drawn through the text.

5. There are no significant changes proposed to the treasury management strategy for 2014/15. Following changes to the Strategy approved by County Council in November 2013 a £5m investment in the CCLA LAMIT Property Fund increased by 3.45% in value during December 2013.

6. The proposed changes to the Strategy for 2014/15 are highlighted in the policy document and include the following:

- The Council may borrow £10m per annum in advance of need during 2014/15 and 2015/16 and a further £10m in 2016/17, borrowing requirements will be reviewed.
- During 2014/15 the Council will be borrowing £16m on behalf of the South East Local Enterprise Partnership (LEP) Buckinghamshire for Aylesbury Eastern Link Road and High Wycombe Town Centre Transport Projects. HM Treasury has agreed that the LEP can access the PWLB Project Rate at a discount of 40 basis points below the standard PWLB rate, the County Council will arrange the loan and pay the interest to the PWLB on behalf of the LEP, the LEP will reimburse the costs incurred to the County Council so that the loan is cost neutral to the County Council.
- The Council may borrow short term loans, normally for up to one month, to cover unexpected cash flow shortages, explicitly stating the Council's existing practice in the Borrowing Strategy.
- If an institution is on negative watch so that it is likely to fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. The 2013/14 strategy stated that in these circumstances no further investments could be placed.

**B. Other options available, and their pros and cons**

The Council has considered setting a more risk adverse strategy and a less risk adverse strategy and has considered the consequential effects on interest income.

**C. Resource implications**

There are no additional costs associated with the recommendation, the aim is to maximise returns within a Strategy which is affordable, prudent and sustainable.

**D. Value for Money (VFM) Self Assessment**

The Council seeks to maximise its investment return and minimise the cost of debt within an acceptable risk exposure.

**E. Legal implications**

The publication of the outturn position and treasury management policy and associated schedules conform to best practice as required by the CIPFA Code of Practice.

**F. Property implications**

There are none.

**G. Other implications/issues**

There are none.

**H. Feedback from consultation and Local Member views**

Not Applicable

**I. Communication issues**

To be published on the website.

**J. Progress Monitoring**

A mid year review and annual review of treasury management activity will be reported. Treasury Management is formally considered at monthly Treasury Management Group meetings between the Cabinet Member for Finance & Resources, the Deputy Cabinet Member for Finance & Resources, the Service Director (Finance and Commercial Services) and other key officers.

**K. Review**

The policy forming part of this decision will be reviewed annually.

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**Background Papers**

There are none.

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***Your questions and views***

*If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.*

*If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Democratic Services Team by 5.00pm on [Date]. This can be done by telephone (to 01296 383604 or 383610), Fax (to 01296 382538), or e-mail to cabinet@buckscc.gov.uk*

Appendix 1

**BUCKINGHAMSHIRE COUNTY COUNCIL**

**TREASURY MANAGEMENT POLICY STATEMENT, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**

## Treasury Management Policy Statement

1 Buckinghamshire County Council defines it treasury management activities as:

- The management of the organisation'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.

- The County 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 organisation, and any financial instruments entered into to manage these risks.

- This 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 to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- The investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

- The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

## Treasury Management Strategy Statement

### Introduction

2 The Treasury Management Strategy details the expected activities of the treasury function in the forthcoming year 2014/15. The publication of the strategy is a statutory requirement.

3 The Treasury Management Strategy Statement and Annual Investment Strategy are underpinned by the CIPFA Code of Practice and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

**Current Portfolio Position**

4 The Council's treasury portfolio position as at 31 December 2013 comprised:

**Borrowing**

| | | | |
|---|---|---|---|
| **Fixed Rate Funding** | **£185.9m** | **Average Rate:** | **6.1%** |

**Investing**

**In House Investments:**

| | | | |
|---|---|---|---|
| **Call accounts** | **£35.0m** | **Average Rate:** | **0.7%** |
| **Money market funds** | **£43.4m** | **Average Rate:** | **0.5%** |
| **Term deposits < 1 year** | **£128.0m** | **Average Rate:** | **0.6%** |
| **Term deposits > 1 year** | **£10.0m** | **Average Rate:** | **1.3%** |

| | |
|---|---|
| **External Investments** | **£5.0m** |
| **Net Investments** | **£35.5m** |

**Prospects for Interest Rates**

5 The Council has appointed Arlingclose as a treasury adviser to the Council. Part of Arlingclose's service is to assist the Council to formulate a view on interest rates. Arlingclose's projected path for short term interest rates remains flat until late 2016. The risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon. The Bank of England Base Rate, the official base rate paid on commercial bank reserves, has been 0.5% since March 2009.

6 The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, provided this does not propose risks to inflation or financial stability.

**Borrowing Strategy**

7 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.

The Council may borrow in advance of spending need, where this is expected to provide the best long term value for money. Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy. The Council is committed to building an Energy from Waste plant. This may require additional borrowing during 2016/17, although in practice much of this may be financed through a combination of earmarked reserves and current cash investments. The Council may borrow £10m per annum in advance of need during 2014/15 and 2015/16 and a further £10m in 2016/17.

8 During 2014/15 the Council will be borrowing £16m on behalf of the South East Local Enterprise Partnership (LEP) Buckinghamshire for Aylesbury Eastern Link Road and High Wycombe Town Centre Transport Projects. HM Treasury has agreed that the LEP can access the PWLB Project Rate at a discount of 40 basis points below the standard PWLB rate, the County Council will arrange the loan and pay the interest to the PWLB on behalf of the LEP, the LEP will reimburse the costs incurred to the County Council so that the loan is cost neutral to the County Council.

9 The Council may borrow short term loans, normally for up to one month, to cover unexpected cash flow shortages.

**Investments Strategy**

10 This Council maintains investments that are placed with reference to cash flow requirements. Investment of the Council's funds is in accordance with the Annual Investment Strategy.

**Debt Rescheduling**

11 The potential for debt rescheduling is monitored in light of interest rate movements. Any rescheduling will be in accordance with the borrowing strategy. The reasons for rescheduling include:

- The generation of cash savings at minimum risk.
- Fulfilment of the borrowing strategy.
- Enhancement of the maturity profile of the borrowing portfolio.

12 All rescheduling will be reported retrospectively as part of the Treasury Management Update Reports to the Regulatory and Audit Committee and County Council.

**CIPFA Treasury Management Code of Practice**

13 CIPFA recommends that all public service organisations adopt the following four clauses.

14 This Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives, approach to risk management of its treasury management activities, borrowing policies and investment policies.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

15 This Council will receive reports on its treasury management policies and activities, including an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.

16 This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Regulatory and Audit Committee, and for the execution and administration of treasury management decisions to the Service Director (Finance and Commercial Services), who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

17 This Council nominates the Regulatory and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## Minimum Revenue Provision Policy Statement

18 Prior to 2008/09, the Council in accordance with legislation made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme. This contribution is called the Minimum Revenue Provision (MRP).

19 The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008, 2008/09 was the first year of operation.

20 Where capital expenditure was incurred before 1 April 2008 MRP will continue to be charged at the rate of 4% of the outstanding Capital Financing Requirement, in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using a more complex calculation called the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage.

21 In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

22 Certain expenditure reflected within the debt liability at 31st March 2008 will under delegated powers be subject to MRP using the asset life annuity method, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure.

23 The asset life annuity method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined under delegated powers to the Service Director (Finance and Commercial Services), with regard to the statutory guidance.

24 However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.

25 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

## Annual Investment Strategy

### Introduction

26 This Council has regard to the DCLG's revised Guidance on Local Government Investments issued in 2010 and the 2011 revised CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

27 The Annual Investment Strategy states which investments, specified and non-specified, the Council may use for the prudent management of its treasury balances during the financial year. These are listed in Schedule A.

28 This strategy sets out this Council's policies for managing its investments and for giving priority to the security of capital and liquidity of those investments.

### Investment Objectives

29 The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the **security** of capital and **liquidity** of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective. The effective management and control of risk are prime objectives of the Council's treasury management activities. Investment of the Council's funds will be in accordance with the Treasury Management Strategy and Policy. All investments will be in sterling to mitigate the impact of currency risk.

30 The Council's investments, agreed lending list and strategy are reviewed on a monthly basis by the Treasury Management Group.

31 The Council's treasury management ensures it has sufficient cash to meet its needs, balancing achieving value for money with the security of its investments (achieving a balance between security, liquidity and yield). Performance is monitored against its treasury management strategy and outcomes matched against benchmarks. The Council meets any tax and prompt payment legislation (Late Payment of Commercial Debts (Interest) Act 1998).

32 The Department for Communities and Local Government (DCLG) maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

33 Through various mechanisms identified in this strategy, the Council ensures that investment risks are effectively mitigated. The Council will ensure that an appropriate balance is found between maximising investment income to the Council within a prudent, transparent and logical investment strategy. The security of the principal sum shall be the Council's prime risk factor.

**Specified Investments**

34 Specified investments offer relatively high security and high liquidity. These investments can be used with minimal procedural formalities. The DCLG Guidance defines specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of the UK Government, a UK local authority, parish council or community council or a body or investment scheme ~~of "high credit quality."~~ with a long term rating of A- or above.

**Non-Specified Investments**

35 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor with any low credit quality bodies.~~, nor any that are defined as capital expenditure by legislation (such as company shares.)~~ The overall limit that can be invested in non-specified investments is £150m.

36 Non-specified investments will therefore be limited to long-term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, unrated funds and unrated organisations. EU proposals are being introduced to remove the credit rating AAA wrapping that money market funds are currently assigned, some of the Council's liquidity funds could be unrated. For non-specified investments proper procedures must be in place for undertaking risk assessments prior to investments being placed. Investment instruments identified for use in the financial year are listed in Schedule A under the specified and non-specified investments categories.

37 The majority of the Council's investments will be made for relatively short periods and in highly credit rated investments, giving priority to security and liquidity ahead of yield. However, where the Council has a core cash balance that is not required for any current or planned cash outflow, these funds will be considered suitable for a wider range of investments, with a more moderate focus on security and liquidity and a greater focus on achieving a level of investment income that can support Council services. These may include long-term investments with registered providers of social housing or corporate bond funds where an enhanced return is paid to cover the additional risks presented, only a small proportion of cash would be invested at any one time in these investments. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed, and no such investment will be made without a specific recommendation from the Council's treasury management adviser in consultation with the Cabinet Member for Finance and Resources, the Deputy Cabinet Member for Finance and Resources and the internal Treasury Management Group.

**Security of Capital: The use of Credit Ratings**

38 This Council relies on credit ratings published by the ratings agencies Fitch, Moodys and Standard and Poors to establish the credit quality of counterparties and investment schemes. The lowest available credit rating will be used to determine credit quality. Credit rated institutions are selected using criteria based on the country, also known as sovereign rating if the institution is not UK. The criteria used to select the credit rated banks and building societies is set out at Schedule B.

**Monitoring of credit ratings:**

- The Council has access to Fitch, Moodys and Standard & Poors credit ratings and is alerted to changes through e-mail updates.
- The Council invests in UK or specified AAA / AA+ sovereign rated countries, to improve the potential for diversification and also to optimise access to investments in the world's highest rated institutions the total maximum that can be invested in a AAA sovereign rated individual country is £30m and £15m individual country maximum for AA+ sovereign rated.
- If a counterparty or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion on the lending list will be considered and put to the Service Director (Finance and Commercial Services) for approval.
- From time to time an institution will be placed on negative watch or negative outlook, indicating that a downgrade is either likely or possible in the future. Watches are considered short term actions, whereas outlooks are considered over a longer time horizon. If an institution is on negative watch so that it is likely to fall below the above criteria, then ~~no further~~ only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

**Use of Specified and Non-Specified Investments**

39 The use of specified and non-specified investments is limited to those set out in Schedule A. The Service Director (Finance and Commercial Services) will keep the use of such investments under continuous review in the light of risk, liquidity and return. No additions will be made without the approval of the Council, following appropriate consultation.

**Investment balances / Liquidity of investments**

40 Based on its cash flow forecasts, the Council anticipates its fund balances in 2014/15 to range between £200m and £250m. A prime consideration in the investment of fund balances is liquidity and the Council's forecast cash flow. Investments are made in accordance with this Annual Investment Strategy and the investment strategies approved by the Service Director (Finance and Commercial Services) during the year.

**Policy on Use of Financial Derivatives**

41 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. 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).

42 The general power of competence in section 1 of the Localism Bill 2011 removes much of the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

43 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 will not be subject to this policy, although the risks they represent will be managed in line with the overall treasury risk management strategy. This Council used swaps to hedge against currency and interest rates fluctuations for the Energy for Waste project.

**Provisions for Credit-related losses**

44 If any of the Council's investments appear at risk of loss due to default the Council will make revenue provision of an appropriate amount; although, the Council will make all reasonable attempts to secure any potential defaults prior to such an occurrence. The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors, this means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. We are being paid first when it comes to getting our money back; to date we have received £2.7m and will recover most of the £5 million we had on deposit with Landsbanki.

**Reporting & Governance Arrangements**

45 The treasury strategy, six monthly review and annual activity reports are presented to the Regulatory and Audit Committee. The Council's investments, agreed lending list and strategy are reviewed on a monthly basis by the Treasury Management Group which includes the Cabinet Member for Finance & Resources, the Deputy Cabinet Member for Finance & Resources, the Service Director (Finance and Commercial Services) and other key officers; the Prudential Indicators are reviewed quarterly at this meeting.

**Training**

46 Member and officer training is essential in terms of understanding roles and keeping up to date with changes. It is an essential component of the CIPFA Treasury Management Code of Practice; to address this training need, training will be provided to all members of the Regulatory & Audit Committee and key officers attend relevant courses / seminars on treasury management.

## Treasury Management Advisers

47 The Council contracts with Arlingclose to provide advice and information relating to its investments and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The services received include advice and guidance on relevant policies, strategies and reports, advice on investment decisions, notification of credit ratings and changes, other information on credit quality, advice on debt management decisions, accounting advice, reports on treasury performance, forecasts of interest rates and training courses for officers and members.

48 The quality of this service is reviewed by participating in CIPFA's treasury management benchmarking and monitoring investment performance against a weighted average LIBID.

## Prudential Indicators

49 In accordance with the Local Government Act 2003 the Council is required to agree a range of indicators to demonstrate that its investment plans are affordable, prudent and sustainable. The indicators, based on 2014/15 to 2017/18 capital programme form part of this strategy, are attached as Schedule C. The Prudential Indicators are monitored on a quarterly basis at the Treasury Management Group meetings and progress against the Indicators is reported to the Regulatory & Audit Committee in the mid year and annual activity report.

**Background Papers**

CIPFA Code of Practice on Treasury Management in the Public Service revised 2011
DCLG Guidance on Local Government Investments revised in 2010
Communities and Local Government Guidance on Minimum Revenue Provision issued February 2008.

Service Director (Finance & Commercial Services)
20 January 2014

## LOCAL GOVERNMENT INVESTMENTS (England)

## SPECIFIED INVESTMENTS

**Specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of the UK Government, a UK local authority, parish council or community council or a body or investment scheme of suitable credit quality.**

| Investment | Repayable/ Redeemable within 12 months? | Security / Minimum Credit Rating | Maximum period |
|---|---|---|---|
| **Debt Management Agency Deposit Facility** (DMADF) | Yes | Govt-backed | 1 year |
| **Term deposits** with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act and similar authorities in Scotland) with maturities up to 1 year | Yes | High security although most local authorities are not credit rated. | 1 year |
| **Term deposit structures** with credit-rated deposit takers (banks and building societies), including structured deposits, with maturities up to 1 year | Yes | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | 1 year |
| **Certificates of deposit** issued by credit-rated deposit takers (banks and building societies) with maturities up to 1 year<br>*Custodial arrangement required prior to purchase* | Yes | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | 1 year |
| **Money Market Funds**<br>These are pooled investment vehicles consisting of instruments similar to those used by the Council, these funds do not have any maturity date. The maximum amount that can be invested in each money market fund and similar pooled vehicles whose lowest published credit rating is A- ~~AAA~~is £20m. | Yes | Yes, A- | The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements |
| **Forward deals** with credit rated banks and building societies < 1 year (i.e. forward deal period plus period of deposit) | Yes | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | The forward deal period plus the deal period should not exceed one year in aggregate |
| **Treasury bills**<br>(*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value)*<br>*Custodial arrangement required prior to purchase* | Yes | Govt-backed with yields that exceed the DMADF | 1 year |

## LOCAL GOVERNMENT INVESTMENT (England)

## NON-SPECIFIED INVESTMENTS

***Non-specified investments are long-term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, unrated funds and unrated organisations. All investments listed below must be sterling-denominated, the overall limit that can be held in non-specified investments is £150m.***

| Investment | (A) Why use it?<br>(B) Associated risks? | Repayable/ Redeemable within 12 months? | Security / Minimum credit rating | Maximum value | Maximum period |
|---|---|---|---|---|---|
| **Term deposits** with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act, and similar authorities in Scotland) irrespective of credit rating with maturities up to 25 years | (A) To achieve certainty over income from investments for a proportion of the portfolio | Will depend on terms of investment up to 25 years | Although most local authorities do not have credit ratings, local authorities are highly creditworthy ~~UK government security~~ | Maximum £25m per Council, up to £75m in total | >1 year, up to 25 years |
| **Term deposits** with the UK government | (A) To achieve certainty over income from investments for a proportion of the portfolio | Will depend on terms of investment up to 50 years | UK government security | Unlimited | >1 year, up to 50 years |
| **Term deposit structures** with credit-rated deposit takers (banks and building societies), including structured deposits, with maturities up to 5 years | (A) To achieve certainty over income from investments for a proportion of the portfolio<br>(B) Credit rating risk mitigated by using rating agencies, interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure that the Council has adequate cash resources | Will depend on terms of investment up to 5 years | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | £75m | >1 year, up to 5 years |
| **Forward deals for** Term deposit structures with credit-rated deposit takers (banks and building societies) and UK local authorities, including structured deposits, with maturities up to 5 years | (A) To achieve certainty over income from investments for a proportion of the portfolio<br>(B) Credit rating risk mitigated by using rating agencies, interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure that the Council has adequate cash resources | Will depend on terms of investment up to 5 years | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | £75m | The forward deal period plus the deal period should be >1 year, but not exceed 5 years and 3 months in aggregate |

| | | | | | |
|---|---|---|---|---|---|
| **UK Building societies** holding long-term credit ratings no lower than BBB or equivalent, with assets greater than £1bn | To achieve diversification | Up to 6 months | No lower than BBB or equivalent, with assets greater than £1bn | £3m per institution | 6 months |
| **UK Building societies** without credit ratings, with assets greater than £1bn | To achieve diversification | Up to 6 months | No credit rating | £3m per institution | 6 months |
| **Gilts and supranational bonds** *Custodial arrangement required prior to purchase* | (A) Provide a high level of security in addition to yield, tradable and can be liquidated when it is advantageous to do so. | Will depend on terms of investment up to 5 years | Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union). | £75m | |
| **Certificates of deposits** issued by credit-rated deposit takers (banks and building societies) *Custodial arrangement required prior to purchase* | (A) This is a money market instrument which will be redeemed on the maturity date with interest. The difference between a certificate of deposit and a term deposit is that a certificate of deposit can be sold on in the money markets to other investors. Although in theory tradable, they are relatively illiquid.<br>(B) Yield subject to movement during the life of a certificate of deposit which could negatively impact on its market price. | Will depend on terms of certificate up to 5 years | Yes, apply policy as outlined in Schedule B and minimum Country (Sovereign Rating) AA+ if not UK institution | £25m | > 1 year, up to 5 years |
| **Organisations and pooled funds** which do not meet the specified investment criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser | These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds) including property funds where an enhanced return is paid to cover the additional risks presented. Since EU proposals are being introduced to remove the credit rating AAA wrapping that money market funds are currently assigned, some of the Council's liquidity funds could be unrated and not meet the specified investment criteria. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed. | 5 years for an investment with a registered social housing provider.<br><br>The pooled funds do not have a defined maturity date. | Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser. | £5m per individual counterparty such as a registered provider of social housing<br><br>£25m per pooled fund. | 5 years<br><br>There is no maximum period, but it is envisaged that funds would be placed for an expected long duration, e.g 3 years minimum. |

**BUCKINGHAMSHIRE COUNTY COUNCIL – AUTHORISED BORROWERS**

This schedule sets out the criteria used to select the credit rated banks and building societies where the Council invests its cash in term deposit structures.

**Geographical Spread**

A country is assigned a sovereign rating which signifies a country's ability to provide a secure investment environment which reflects factors such as economic status, political stability and foreign currency reserves. The strongest sovereign rating that can be achieved is "AAA", "AA+" is the next strongest.

The Council invests in the UK or specified AAA and AA+ sovereign rated countries, the total maximum that can be invested in an individual AAA sovereign rated country is £30m and the total maximum that can be invested in an individual AA+ sovereign rated country is £15m.

Countries that are currently AAA sovereign rated are Australia, Canada, Denmark, Finland, Germany, Luxembourg, ~~Netherlands,~~ Norway, Singapore, Sweden and Switzerland ~~United Kingdom~~. Austria, France, Netherlands, United Kingdom and the USA are currently AA+ sovereign rated.

Santander UK plc and Clydesdale Bank plc are deemed to be UK institutions, although their parent banks are based in Spain and Australia respectively. Both banks have extensive UK operations.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

**Creditworthiness**

The Council defines the following as being of suitable ~~high~~ credit quality for making investments, subject to the monetary and time limits shown.

| | Monetary limit | Time limit for UK or AAA sovereign rated countries | Time limit for AA+ sovereign rated countries |
|---|---|---|---|
| Banks, building societies and other organisations holding long-term credit ratings no lower than AAA or equivalent | £25m each | 5 years | 5 years |
| Banks, building societies and other organisations holding long-term credit ratings no lower than AA+ or equivalent | £25m each | 5 years | 4 years |
| Banks, building societies and other organisations holding long-term credit ratings no lower than AA or equivalent | £25m each | 4 years | 3 years |
| Banks, building societies and other organisations holding long-term credit ratings no lower than AA- or equivalent | £25m each | 3 years | 2 years |
| Banks, building societies and other organisations holding long-term credit ratings no lower than A+ or equivalent | £25m each | 2 years | 1 year |
| Banks, building societies and other organisations holding long-term credit ratings no lower than A or equivalent | £10m each | 18 months | 6 months |
| Banks, building societies and other organisations holding long-term credit ratings no lower than A- or equivalent, with assets greater than £1bn | £10m each | 6 months | 6 months |

**Group Limits**

The maximum amount invested with a connected group of counterparties is £20m (although the maximum investment with a single counterparty within any group is dependent on the bank's credit rating). Investments in part nationalised and nationalised banks are not subject to a government group limit.

**Credit Watch / Outlook**

From time to time an institution will be placed on negative watch or negative outlook, indicating that a downgrade is either likely or possible in the future. Watches are considered short term actions, whereas outlooks are considered over a longer time horizon. If an institution is on negative watch so that it is likely to fall below the above criteria, then ~~no further~~ only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

**Credit Default Swaps (CDS)**

Credit rating agencies lag market events and therefore do not provide investors with an up to date picture of the credit quality of a particular institution. A CDS is a financial instrument which insures against the risk of a counterparty defaulting on its credit. When the cost of this insurance is highest, then it is more likely that the market considers a credit event will occur. Each ~~week~~ month Arlingclose provides CDS spreads information enabling the Treasury Team to monitor short, medium and long term trends of CDS spreads. If there is a spike in the values of CDS's due to adverse market conditions, then Arlingclose alert the Treasury Team immediately.

**Schedule C**

# PRUDENTIAL INDICATORS FOR MTP 2014/15 to 2017/18

## 1. BACKGROUND

**1.1.** The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

**1.2.** Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

**1.3.** The purpose of this report is to update and revise the indicators approved by Council last year contained within the proposed MTP for 2014/15 to 2017/18. The report describes the purpose of each of the indicators and the proposed values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place through out the year and a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

## 2. CAPITAL EXPENDITURE INDICATORS

### 2.1. CAPITAL EXPENDITURE

This indicator is required to inform the Council of capital spending plans for the next four years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of gross capital expenditure to be incurred for the current and future years is summarised below:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Estimates of capital expenditure | £000 | 78,570 | 112,695 | 73,073 | 63,721 | 233,389 | 36,646 |

The 2013/14 estimates reflect the forecast gross capital expenditure against the revised budgets to the end of December 2014.

The estimate of capital expenditure for 2014/15 to 2017/18 reflects the capital programme within the MTP. In 2016/17 the programme includes an allowance for the Energy from Waste plant, which will be supported in part through prudential borrowing.

## 2.2. CAPITAL FINANCING REQUIREMENT

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Estimates of capital financing requirement (CFR) | £000 | 220,151 | 211,743 | 219,660 | 212,523 | 334,936 | 324,774 |

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council. The profile above reflects:

- Prudential borrowing of £16m in 2014/15 as the accountable body on behalf of the LEP to support Transportation projects;
- Prudential borrowing of £1.4m in 2015/16 to support the capital programme;
- An allowance for prudential borrowing of £130m in 2016/17 that may be required to be undertaken as part of the Energy from Waste (EfW) Project.

## 3. AFFORDABILITY INDICATORS

### 3.1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

**Purpose of the Indicator**

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Estimates of ratio of financing costs to net revenue stream | % | 6.4% | 6.3% | 6.02% | 5.93% | 6.68% | 6.99% |

### 3.2. ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Estimates of the incremental impact of capital investment decisions on Council Tax | £ | -£0.25 | -£0.09 | -£8.05 | -£7.78 | -£9.75 | -£17.85 |
| | % | -0.02% | -0.01% | -0.73% | -0.69% | -0.69% | -1.53% |

The delivery of a number of projects within the capital programme including the replacement of Street Lamps with more efficient equipment, introduction of a bio-waste treatment facility and rationalisation of premises will result in revenue savings. In addition a net saving is forecast in relation to the Energy from Waste project.

## 4. FINANCIAL PRUDENCE INDICATOR

### 4.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt 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. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

The figures for 2014/15 onwards are based on estimates:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Gross Borrowing | £000 | 193,928 | 188,200 | 205,000 | 205,000 | 205,000 | 195,000 |
| Capital Financing Requirement | £000 | 220,151 | 211,743 | 219,660 | 212,523 | 334,936 | 324,774 |

The above figures show that during the next 4 years gross external borrowing in Buckinghamshire may temporarily exceed the capital financing requirement.

The Council is committed to building an EfW plant. This may require additional borrowing during 2016/17, although in practice much of this may be financed through a combination of earmarked reserves and current cash investments. The gross borrowing indicator assumes borrowing £10m per annum in advance during 2014/15 and 2015/16 and a further £10m during 2016/17. The need for borrowing in advance will be reviewed.

The indicator also includes £16m in 2014/15 borrowed on behalf of the Buckinghamshire Thames Valley Local Enterprise Partnership (BTVLEP) for Aylesbury Eastern Link Road and High Wycombe Town Centre Transport Projects. HM Treasury has agreed that the LEP can access the PWLB Project Rate at a discount of 40 basis points below the standard PWLB rate, the County Council will arrange the loan and pay the interest to the PWLB on behalf of the LEP, the LEP will reimburse the costs incurred to the County Council so that the loan is cost neutral to the County Council.

## 5. TREASURY AND EXTERNAL DEBT INDICATORS

### 5.1. AUTHORISED LIMIT FOR EXTERNAL DEBT

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Authorised limit (for borrowing) * | £000 | 250,000 | 250,000 | 250,000 | 250,000 | 300,000 | 300,000 |
| Authorised limit (for other long term liabilities) * | £000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Authorised limit (for total external debt) * | £000 | 260,000 | 260,000 | 260,000 | 260,000 | 310,000 | 310,000 |

* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements.

The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Service Director (Finance & Commercial Services) will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

### 5.2. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Operational boundary (for borrowing) | £000 | 193,928 | 200,000 | 210,000 | 210,000 | 250,000 | 250,000 |
| Operational boundary (for other long term liabilities) | £000 | 5,562 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 |
| Operational boundary (for total external debt) | £000 | 199,490 | 205,500 | 215,500 | 215,500 | 255,500 | 255,500 |

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice documents. It will be reviewed on an on-going basis.

### 5.3. ACTUAL EXTERNAL DEBT

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2013 was £193.9m which includes £2.3m accrued interest. During the current financial year £5.7m of debt has been repaid. The forecast external borrowing as at 31 March 2013 is £188.2m.

## 6. TREASURY MANAGEMENT INDICATORS

The prudential code links with the existing CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicator consists of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

### 6.1 SECURITY AVERAGE CREDIT RATING

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

| Security Average Credit Rating | Actual / Target |
|---|---|
| **Portfolio Average Credit Rating** | AA / A+ or above |

For the purpose of this indicator local authorities, which are unrated are assumed to hold an AAA rating.

### 6.2 HAS THE COUNCIL ADOPTED THE CIPFA TREASURY MANAGEMENT CODE?

The Council has adopted the Code. In line with the Code the Treasury Strategy for 2014/15 is reported to Regulatory and Audit Committee and Council.

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services | N/A | Yes | Yes | Yes | Yes | Yes | Yes |

### 6.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 4 YEARS TO 2017/18.

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Fixed interest rate exposure - upper limit * | £000 | 205,000 | 200,000 | 215,000 | 215,000 | 265,000 | 265,000 |

* Any breach of these limits will be reported to the full Council

### 6.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 4 YEARS TO 2017/18.

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount will be:

| Indicator | Unit | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Variable interest rate exposure - upper limit * | £000 | 60,000 | 75,000 | 110,000 | 80,000 | 80,000 | 95,000 |

* Any breach of these limits will be reported to the full Council

The fourth element requires limits to be set for fixed rate borrowing.

### 6.5 MATURITY STRUCTURE OF FIXED RATE BORROWING FOR 2014/15 – 2017/18

This Indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

| Maturity Structure of Fixed Rate Borrowing | Actual 2012-13 | | Revised Estimate 2013/14 | | 2014/15 | | 2015/16 | | 2016/17 | | 2017/18 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Period | Upper Limit | Lower Limit | Upper Limit | Lower Limit | Upper Limit | Lower Limit | Upper Limit | Lower Limit | Upper Limit | Lower Limit | Upper Limit | Lower Limit |
| Under 12 months | 30% | 0% | 40% | 0% | 50% | 0% | 45% | 0% | 55% | 0% | 55% | 0% |
| 12 months and within 24 months | 25% | 0% | 40% | 0% | 35% | 0% | 45% | 0% | 40% | 0% | 40% | 0% |
| 24 months and within 5 years | 50% | 0% | 55% | 0% | 55% | 0% | 55% | 0% | 55% | 0% | 55% | 0% |
| 5 years and within 10 years | 65% | 0% | 60% | 0% | 55% | 0% | 55% | 0% | 60% | 0% | 60% | 0% |
| 10 years and above | 100% | 0% | 100% | 20% | 100% | 20% | 100% | 20% | 100% | 20% | 100% | 20% |

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

### 6.6 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

| Indicator | Actual 2012-13 | Revised Estimate 2013-14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|
| Total principal sums invested for periods longer than 364 days | £0m | £10m | £75m | £75m | £75m | £75m |

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £75m.

## 7 CONCLUSION

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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