Bath & North East Somerset Council

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Date: 21 January 2013
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To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Gerry Curran, Dave Laming, Barry Macrae, Will Sandry, Brian Simmons and Geoff Ward

Independent Member:

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 5th February, 2013

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 5th February, 2013** at **5.30 pm** in the**. Kaposvar Room - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

   Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

   For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

4. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

6. **Emergency Evacuation Procedure**

   When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

   Arrangements are in place for the safe evacuation of disabled people.

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Corporate Audit Committee - Tuesday, 5th February, 2013
at 5.30 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

   To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is **a disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

   The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 4 DECEMBER 2012 (Pages 7 - 12)

9. TREASURY MANAGEMENT STRATEGY (Pages 13 - 36)

10. ANNUAL GOVERNANCE REVIEW UPDATE (Pages 37 - 42)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

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BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 4th December, 2012, 5.30 pm

Councillors: Andrew Furse (Chair), Gerry Curran, Dave Laming, Barry Macrae, Douglas Nicol (In place of Will Sandry), Brian Simmons and Geoff Ward
Independent Member: John Barker
Officers in attendance: Tim Richens (Divisional Director, Finance), Jeff Wring (Divisional Director, Risk and Assurance Services) and Andy Cox (Group Manager (Audit/Risk))
Guests in attendance: Chris Hackett (Grant Thornton) and Barrie Morris (Grant Thornton)

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

27 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

28 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Will Sandry, for whom Councillor Douglas Nicol substituted.

29 DECLARATIONS OF INTEREST

There were none.

30 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There were none.

31 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

32 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

33 MINUTES: 27 SEPTEMBER 2012

These were approved as a correct record, subject to the addition of the following note of clarification in relation to the last paragraph of minute 22:

"The outcome of the discussion was that the Curo Board has full responsibility for management and governance, and that any Councillor appointed to the Curo Board would not be representing B&NES Council."

34 EXTERNAL AUDIT UPDATE REPORT

The Divisional Director, Risk and Assurance, introduced Barrie Morris of Grant Thornton, the newly-appointed external auditors, and invited him to address the Committee.

Mr Morris said that Grant Thornton had been performing external audits on behalf of the Audit Commission since 1982. Grant Thornton had now gained more critical mass, having had 300 staff from the Audit Commission join them and there were now only 61 staff at the Audit Commission's central headquarters, reducing central overheads. These two factors allowed Grant Thornton to offer a very competitive fee. Members would find that the style of audit would be very similar to that provided by the Audit Commission, with whom many Grant Thornton staff had trained. Mr Hackett would remain the main contact with the Council. A specific partner of Grant Thornton would provide a dedicated service to the Avon Pension Fund, which had particular risks.

The Chair asked Mr Morris what he expected of the Committee, which had many members who were not financial professionals, so that it could play its part in the audit process. Mr Morris replied that it was good to have a challenging committee; training and briefings could be provided if members desired. Grant Thornton would involve the Committee in the audit process to ensure that it was satisfied with the framework in place.

Councillor Macrae said that he thought Grant Thornton would bring greater commercial acumen.

The Chair asked about the possibility of conflicts of interest in Grant Thornton. Mr Morris replied said that a circular had been sent to all Grant Thornton staff asking them to declare interests, including personal relationships with members of Council staff. APB Standard 5 would be strictly applied. There was a higher test for working with the public sector, where not only conflicts of interest but even the appearance of conflicts had to be avoided.

Mr Barker said that the public sector was changing rapidly and cross-fertilisation from the private sector would be good.

The Chair noted that the covering paper referred to a 30% reduction in the audit fee, whereas the appendix stated that the reduction was 40%. The Divisional Director, Risk and Assurance confirmed that the reduction was 40%. Councillor Ward asked whether, given this huge reduction in fee, the Council would receive the same quality of service as previously. Mr Morris replied that they would be monitored by the Audit Commission to ensure that their standards were met and by the Financial Reporting Council. There was also a commercial imperative: if Grant Thornton produced bad audits, they would not be employed.

In response to questions from Members, Mr Hackett said that the claim that the uncertified claim given in the table in paragraph 2.2 of the Grant Certification Report

report related to the Combe Down stone mines. In response to a question from Councillor Macrae, he confirmed that the claim was uncertified because records prior to 2003 had been lost and that no malfeasance was involved. In response to the Chair, he confirmed that the sum was non-material.

RESOLVED to note the update from the External Auditor including the planned fees for 2012/13 and the findings from the Grant Certification Report.

35 TREASURY MANAGEMENT UPDATE REPORT

The Divisional Director – Finance presented the Treasury Management Monitoring Report to 30th September 2012. He said that it was a real challenge that interest rates were at an all-time low and that the credit ratings of financial institutions continued to fall. A summary guide to credit ratings was given in Appendix 7. Under the Treasury Management Strategy, it was not possible to invest in any institution whose rating was below A-. In any case, anything lower than that was not investment grade. Money could not be invested for more than 1 year in any institution with a rating of A-. The advice of the Council's treasury management consultant, Sterling, would be taken before any amendments to the Treasury Management Strategy were proposed. On a positive note, there had been no new borrowing in 2012/13 and the Council's total borrowings remained £120M, as had been the case for many years. Projects continued to be funded from cash flow. The Capital Financing Requirement was £136.1M at 31st March 2012 and was projected to be £170 by the end of 201/2013. Cash flow was being managed as well as possible to help fund this. In addition the Government was very keen to advance payments for the Bath Transport Package. It was proposed to take £900,000 to pay debt. A key aim was to invest in growth, given that in future the Council would retain 50% of business rates and there would be no increase in contributions from Government. Interest-free loans were available from the Regional Growth Fund.

Councillor Macrae thanked the Treasury Management team for an excellent report. He said that he had serious concerns about the 11,000 homes that the Council was told it must provide, when the Council's own strategy was to facilitate only an additional 8,500 jobs. He was not happy that the Council was being directed to do things that would cost it money.

Councillor Curran said that the Council was required to have a 5-year housing strategy. He said that the Council would benefit from new homes, because the occupiers would pay Council Tax.

Councillor Nicol asked about the availability of European funding. The Divisional Director – Finance replied that the Council did receive some European funding for transport projects, but none for development. The possibility of further European funding was being investigated. In reply to a question from Councillor Ward, he said that the this year's budget for income from interest was £800,000, which was being achieved, though the amount earned was significantly less than in the previous year. Replying to a question from Councillor Simmons, he said that there would be no need to borrow to fund the Keynsham regeneration project.

Members congratulated officers for their skilful management of the Council's investments and borrowings.

RESOLVED
(i) to note the Treasury Management Report to 30th September 2012;
(ii) to note the Treasury Management Indicators to 30th September 2012.

36 INTERNAL AUDIT PLAN UPDATE REPORT

The Risk Manager presented the report. He reminded Members that the Internal Audit plan had been presented to the Committee in May. 43% of the plan was either completed or in progress. The shortfall arose from unplanned work, which had increased to 20% from 14% in the previous year. Also a member of the Audit & Risk Team had been seconded to the Procurement Team, resulting in a reduction of the Audit & Risk Team from just of 10 FTE posts to just over 9. 37.5% of reviews had been completed in the assigned days. The explanation of this was that the scope of a number of reviews had been widened. Customer satisfaction had been 91% and 73% of critical/high recommendations had been implemented by follow-up. He drew attention to the table of the position of Audit Reviews at the end of the second quarter on page 49. Councillor Macrae suggested that the clarity of this table when copied in black and white might be improved by the addition of a column containing the letter G, O, Y to show whether rows were red, green, orange or yellow in the colour original. He asked whether the Audit and Risk Team could be strengthened by the use of temporary staff. The Risk Manager replied that authority had been given for the recruitment of a temporary member of staff, but it the problem was that it could be time-consuming to train them in the use of specialised software.

In response to a question from Councillor Ward, the Risk Manager said that the methodology for identifying areas for investigation by risk level had been included in the information presented at the May meeting. When unplanned work was received, it was the lower risk items that were deferred. Councillor Ward asked whether it might be more efficient to review a whole service, rather than just individual aspects. The Risk Manager said that he did not rule this out, but at the moment that single issue approach was felt to be better. Councillor Macrae agreed that single-issue audits were preferable, because different activities had different values and different levels of risk. As he saw it, the Committee could either accept that 30% of planned work was dropped every year, or express concern that the same areas were being deferred repeatedly.

Mr Barker said that when lower-risk items were displaced by unplanned, it was not always clear whether or not they were permanently displaced. He suggested that this might be better managed in the context of 2-3 year operational plans, as he had previously suggested. The Risk Manager replied that there used to be 5-year and 3-year service plans for the Audit and Risk Team. At present it was felt that 1-year plans were more flexible, though he acknowledged there was an issue about the management of displaced work.

In reply to a question from Councillor Ward, the Divisional Director, Risk and Assurance said that factors used in assessing risk include the size of a budget, handling of cash, IT and the level of assurance achieved at the latest review.

RESOLVED to note progress made against the Internal Audit Plan for 2012/13.

37 DRAFT FINANCIAL REGULATIONS

The Divisional Director, Risk and Assurance presented the report.

Councillor Macrae said that it would have been helpful to have a had a summary of the changes in the revised Financial Regulations as it was difficult to see what had changed in a 100-page document. The Divisional Director, Risk and Assurance said this was a valid comment. The problem was that they had not been revised since 2002 and had doubled in length. It was an important document, which could only be approved by the full Council after the Corporate Audit Committee had commented on them. He apologised that because of the way meetings fell, the document was not entirely complete, though the core content was. It was not expected that anyone in the Council would read the whole document; a hyperlinked version would be put on the Intranet so that staff could quickly find the parts relevant to them. It had been hoped to give the Committee a demonstration of this, but it had not been possible to complete it in time.

Mr Barker said that he was reassured by what had just been said about the format and accessibility of the document for staff. He now understood that it was not a document intended to be read in its entirety, but was a database that could be drawn on as needed by for particular purposes.

Councillor Laming wondered whether the Regulations might restrict the ability of staff to innovate in a positive way. The Chair thought that this was not the case, since any good manager would allow staff to use appropriate discretion.

Mr Barker said that information about the Regulations should be given in staff inductions.

Members expressed a wish to see the interactive version of the Regulations, before they went to Council for approval. The Divisional Director, Risk and Assurance said that it would probably be possible to get the approval of the Regulations on the Council's May agenda.

RESOLVED that the Committee has commented on the revised Financial Regulations and expects to see a demonstration of the interactive version before they are submitted to the Council for approval.

The meeting ended at 7.00 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council	
MEETING:	**Corporate Audit Committee**
MEETING DATE:	**5th February 2013**
TITLE:	**Treasury Management Strategy Statement and Annual Investment Strategy 2013/14**
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - Treasury Management Strategy 2013/14 Appendix 2 - Annual Investment Strategy 2013/14 Appendix 3 - Authorised Lending List	

1 THE ISSUE

1.1 In February 2012, the Council adopted the revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the Council to approve a Treasury Management Strategy before the start of each financial year and for this to be scrutinised by an individual / group of individuals or committee.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 This report is tabled to be scrutinised by the Corporate Audit Committee at the 5th February 2013 meeting, following which any recommendations will be reported back verbally as an update to this report.

2 RECOMMENDATION

The Corporate Audit Committee agrees to:

2.1 recommend the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Cabinet & Council for approval.

2.2 recommend the Investment Strategy as detailed in Appendix 2 to February Cabinet & Council for approval.

2.3 recommend the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Cabinet & Council for approval.

The Corporate Audit Committee is also asked to:

2.4 Note the Treasury Management Indicators detailed in Appendix 1, and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval at Full Council on 19th February 2013 to the Divisional Director - Finance and Cabinet Member for Community Resources, in light of any changes to the Budget Report at February Cabinet.

3 FINANCIAL IMPLICATIONS

3.1 Included in the report and appendices.

4 THE REPORT

Background

4.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

4.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

4.3 The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

4.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

2. any increases in running costs from new capital projects , and
3. increases in the Minimum Revenue Provision for capital expenditure

are limited to a level which is affordable within the projected income of the Council for the foreseeable future

4.5 The revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, adopted by Council in February 2012, requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function.

2013/14 Treasury Management & Annual Investment Strategy

4.6 The Strategy Statement for 2012/13 set Prudential Indicators for 2012/13 – 2014/15, which included a total borrowing requirement at the end of 2012/13 of £163 million. At the end of December 2012, external borrowing was at £120 million, with no further borrowing planned in the 2012/13 financial year.

4.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code. The indicators contained within this report are currently draft and could be affected by changes made to the capital programme, following decisions on the budget report which is also on the agenda for February Cabinet. It is therefore recommended that the Corporate Audit Committee request that Cabinet grant delegated authority to the Divisional Director - Finance and the Cabinet Member for Community Resources to agree any changes to the indicators prior to reporting for approval at Full Council on the 19th February 2013.

4.8 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.

4.9 The budget report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this treasury Management Strategy.

4.10 Appendix 1 also details the Council's current portfolio position as at 31st December 2012, which shows after the netting off of the £89.9 million investments, the Council's net debt position was £30.1 million.

4.11 The Annual Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) Prices, Individual Ratings, financial press. This has been the case in recent years, which protected the Council against losses of investment in Icelandic banks.

4.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2012 are included in the listing in Appendix 3.

4.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

5 RISK MANAGEMENT

5.1 The report author and Lead Cabinet member have fully reviewed the risk assessment related to the issue and recommendations, in compliance with the Council's decision making risk management guidance.

5.2 The Council's lending & borrowing list has been regularly reviewed over the past year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management Advisors Arlingclose.

6 EQUALITIES

6.1 This report provides information about the Council's Treasury Management Strategy and therefore no specific equalities impact assessment was carried out.

7 CONSULTATION

7.1 Consultation has been carried out electronically with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report deals with issues of a corporate nature.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Finance) have the opportunity to input to this report and have cleared it for publication.

Contact person	*Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213* *Tim_Richens@bathnes.gov.uk Jamie_Whittard@bathnes.gov.uk*
Background papers	*None*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

TREASURY MANAGEMENT STRATEGY – 2013/2014

Introduction

In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

Treasury Borrowing Limits for 2013/14 to 2015/16

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

Treasury Management Indicators for 2013/14 – 2015/16

The Council measures and manages its exposures to treasury management risks using the following indicators. The council is asked to approve the following indicators:.

<u>Security: average credit rating</u>
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2013/14
Minimum Portfolio average credit rating	A

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2013/14	2014/15	2015/16
Upper limit on fixed interest rate exposures	£201m	£191m	£189m
Upper limit on variable interest rate exposures	£60m	£60m	£60m

The variable interest rate exposure limit is set at £0m to restrict the amount of variable rate debt up to the level of variable rate investments.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

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

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within five years	75%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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. The limits on the proportion of total principal sum invested to final maturities beyond the period end will be:

	2013/14	2014/15	2015/16
Limit on proportion of principal invested beyond year end	£50m	£50m	£50m

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2013/14	2014/15	2015/16
Operational boundary – borrowing	£167m	£152m	£155m
Operational boundary – other long-term liabilities	£2m	£2m	£2m
Operational boundary – TOTAL	£169m	£154m	£157m
Authorised limit – borrowing	£201m	£191m	£189m
Authorised limit – other long-term liabilities	£2m	£2m	£2m
Authorised limit – TOTAL	£203m	£193m	£191m

Current Portfolio Position

The Council's treasury portfolio position at 31st December 2012 comprised:

	Principal	Ave. rate
	£m	%
Total Fixed rate funding	PWLB 100	4.45
Variable rate funding	Market 20	4.50*
Other long term liabilities	Nil	N/A
TOTAL DEBT	**120**	**4.46**
TOTAL INVESTMENTS**	**89.9**	**0.67**
NET DEBT	**30.1**	

* The market loans are 'lenders options' or LOBO's. These are fixed at a relatively low rate of interest for an initial period but then revert to a higher rate of 4.5%. When the initial period is over the loans are then classed as variable, as the lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower has the option to repay the loan without penalty.

** Total Investments includes Schools balances where schools have not opted for an external bank account and cash balances related to B&NES PCT Pooled budgets and West of England Growth Points funding.

Prospects for Interest Rates

The Council has appointed Arlingclose as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following section gives their commentary on the economic context and views on the prospects for future interest rates.

Economic Context

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reticent to make long-term investment decisions. The momentum in GDP growth developed in the Olympics-affected third quarter is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has picked up from the low of 2.2% in September to 2.7% in December and it is expected to be affected by volatility in energy and commodity prices throughout 2013.

The Bank of England's Monetary Policy Committee is monitoring current economic conditions after voting not to extend quantitative easing in November. Policymakers appear to be hoping the Funding for Lending Scheme (FLS), which started in August, is more effective at easing restricted credit conditions. Although HSBC has opted out of the scheme, most of the UK's biggest lenders have now signed up. There has been some indication in recent data that the FLS is beginning to boost lending to the household sector, but business lending remains relatively subdued. Further asset purchases remain a distinct possibility, although above target inflation may constrain the MPC in the near future. Based on the last Inflation Report, Bank of England policymakers believe there is a good chance that the CPI rate will remain above target throughout 2013.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of $85bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' remains a serious risk despite the last minute deal reached before the deadline at the end of December. The political turmoil is likely to return in February when the talks on increasing the debt ceiling will create a stage for further political brinkmanship, no doubt prompting further volatility in financial markets.

The Eurozone is making slow headway, with the European Stability Mechanism now operational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Interest rate forecasts

The Council's treasury management adviser, Arlingclose, believes that it could be 2016 before official UK interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until at least 2015. The UK's safe haven status and the minimal prospect of short-term rate rises should maintain gilt yields near their current lows.

Arlingclose and Markets Interest Rate Forecasts

Arlingclose central interest rate forecast – December 2012

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2013	0.50	0.40	0.90	2.80
Q2 2013	0.50	0.40	0.90	2.80
Q3 2013	0.50	0.40	0.95	2.80
Q4 2013	0.50	0.45	0.95	2.80
H1 2014	0.50	0.50	1.00	2.90
H2 2014	0.50	0.50	1.00	2.90
H1 2015	0.50	0.55	1.10	3.00
H2 2015	0.50	0.60	1.10	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

HM Treasury Survey of Forecasts – November 2012

	Average annual Bank Rate %			
	2013	2014	2015	2016
Highest	0.60	1.60	2.80	3.60
Average	0.50	0.65	1.30	1.80
Lowest	0.25	0.25	0.50	0.50

The Council has budgeted for interest rates to remain constant at 0.75% for 2013/14 & beyond.

Borrowing Strategy

The Council currently holds £120 million of long-term loans, and we will continue to monitor appropriate opportunities for borrowing in line with the overall Capital Financing Requirement.

The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2013 is expected to be £161 million, and is forecast to rise to £201 million by March 2014 as capital expenditure is incurred.

The maximum expected long-term borrowing requirement for 2013/14 is:

	£m
Not borrowed in previous years	*41*
Forecast increase in CFR	*40*
Loans maturing in 2014/15	*0*
TOTAL	***81***

However, based on current expectations for interest rates, it is likely that the Council will not undertake any new borrowing , reducing the size of the Council's investment balance instead. The capital financing budget for borrowing in 2013/14 assumes no new borrowing is taken during the year.

In addition, the Council may borrow for short periods of time (normally up to two weeks) to cover unexpected cash flow shortages.

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

- Public Works Loan Board
- any institution approved for investments that meets the investment criteria (this includes other local authorities)
- any other bank or building society approved by the Financial Services Authority
- Public or Private Bond Placement
- Special purpose companies created to enable joint Local Authority bond issues.

Debt instruments
Loans will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest.
- lender's option borrower's option (LOBO) loans.
- bonds

As an alternative to borrowing loans, the Council may also finance capital expenditure and incur long-term liabilities by means of:

- leases
- Private Finance Initiative

Planned Borrowing strategy for 2013/14

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective for the foreseeable future not to take on new borrowing and reduce the level of investments held instead.

The Public Works Loan Board allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council will review opportunities to take advantage of this and replace these higher fixed rate loans with new loans at lower, fixed or variable interest rates, where this will lead to overall budget savings or reduce risk.

All rescheduling will be reported in the next available Treasury Management Monitoring report following its action with all rescheduling detailed in the annual review report.

Policy on use of Financial Derivatives
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).

The Localism Bill 2011 includes a general power of competence that removes 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 latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

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

Derivative counterparties

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

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APPENDIX 2

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Council will have regard to the CLG's Guidance on Local Authority Investments and CIPFA's Treasury Management in Public Services Code of Practice. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investment before seeking the highest rate of return, or **yield**.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Council Officers will operate in a more restrictive manner than the policy allows, as has been the case during the last three years.

Avon Pension Fund Investments

The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. New regulations required that this cash is accounted for separately and needs to be invested separately from the Council's cash, and the split has been managed this way since 1 April 2010. The Fund's investment managers are responsible for the investment of cash held within their portfolios and this policy does not relate to their cash investments.

The cash balance held internally is a working balance to cover pension payments at any point in time and as a result the working balance will be c. £10 million. This working balance represents around 0.5% of the overall assets of the Fund. These investments will operate within the framework of this Annual Investment Strategy, but the maximum counterparty limit and investment term with any counterparty were set by the Avon Pension Fund Committee at its meeting on 18th December 2009. These limits are in addition to the Council's limits for counterparties as set out in Appendix 3.

West of England Revolving Investment Fund (RIF)

Bath and North East Somerset Council is the Accountable Body for the West of England Revolving Investment Fund, and acts as an agent holding Government grants until they are ready to be distributed to Local Authorities for infrastructure works over the next two years.

These funds are kept separate from those of the Council, and therefore do not form part of the Council's counterparty limit restrictions. The funds are invested primarily to protect the capital, and in order to achieve this high level of capital security, investments are made solely with UK Central Government and UK Local Authorities.

Any interest earned on these investments is reinvested into the fund.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, 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".

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

	Maximum Monetary limit	Time limit (or notice)
Banks, building societies & other organisations holding long-term credit ratings no lower than A- or equivalent and a Fitch Support Rating (where given) no lower than 3.	£20m each (highest limit) [1]	12 months
The Council's current bank account (NatWest) if below the criteria above.	£10m	Next day
UK building societies not meeting the above criteria that have a minimum asset size of £4bn and a long-term rating of BBB or above.	£2m each	3 months
Money market funds[2] and similar pooled vehicles holding the highest possible credit ratings (AAA)	£10m each	1 week
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	12 months
UK Local Authorities[3] (irrespective of ratings)	£10m each	12 months
Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£5m each	12 months

[1] The matrix for limits on each rating is provided in Appendix 3. Banks within the same group ownership are treated as one bank for limit purposes. The countries from which banks the Council can invest are detailed in the paragraph "Foreign Countries" below
[2] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[3] as defined in the Local Government Act 2003

There is no intention to restrict investments to banks and building society deposits, and investments may be made with any public or private sector organisation that meets the credit rating criteria above. This reflects a lower likelihood that central government will support failing banks following the Independent Commission on Banking report, as well as the removal of restrictions on local authority purchases of corporate bonds in April 2012.

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 identified 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, small businesses or corporate bond funds where an enhanced return is paid to cover the additional risks presented. 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.

Current account bank

Following a competitive tender exercise held in 2007, the Council's current accounts are held with National Westminster Bank plc, (NatWest), which is close to the bottom of the above credit rating criteria. The Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

Building Societies

UK building societies without credit ratings will be considered to be of "high credit quality", but subject to a lower cash limit and shorter time limit than rated societies. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors.

The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

However, no investments will be made with building societies that have an asset size of lower than £4 billion, or who hold a long-term credit rating lower than BBB or equivalent due to the increased likelihood of default implied by this rating.

Money market funds

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

Funds that offer same-day liquidity and a constant net asset value will be used as an alternative to instant access call accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Collateralised investments

Where the Council makes an investment with an organisation that is secured on collateral in a third party (e.g. a reverse repo or a collateralised deposit), the time limit may be extended to match the limit given above for the third party. However, the investment will still count against the cash limit of the organisation receiving the funds.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments which are:

- denominated in foreign currencies,
- nor any with low credit quality bodies,
- nor any that are defined as capital expenditure by legislation, such as company shares.

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. The maximum duration of the investment will depend upon its lowest published long-term credit rating and whether it is a UK counterparty:

Long-term credit rating	Time limit (UK)	Time limit (Foreign)
AAA	10 years	5 years
AA+	10 years	3 years
AA	10 years	2 years
AA-	5 years	18 months
A+	5 years	N/A
A	3 years	N/A
A-	18 months	N/A

The time limit for long-term investments in UK Local Authorities & Local Government will be 30 years.

Long-term investments will be limited to 50% of a counterparty's limit where it meets the above credit rating criteria (except the UK Government). The combined value of short-term and long-term investments with any organisation will not exceed the limits for specified investments highlighted above.

The total limit on long-term investments, and the total limit on non-specified investments is £50m.

Information on the security of investments

Full regard will be given to available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria set out above.

Risk Assessments & Credit Ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Section 151 Officer.

The Council’s investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

Investment instruments

Investments may be made using any of the following instruments:

- interest paying bank accounts
- fixed term loans & deposits
- call or notice deposits (where the Council can demand repayment)
- callable deposits (where the bank can make early repayment)
- collared deposits
- certificates of deposit
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks
- corporate bonds
- Shares in a pooled fund meeting the definition of money market funds in The Local Authorities (Capital Financing & Accounting) (Amendment) (England) Regulations 2004 No. 534.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR.

Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £20m per country for those rated AAA and £15 million per country for those rated AA+. Banks that are domiciled in one country but are owned in another country will need to meet the rating criteria of and will count against the limit for both countries. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain’s Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

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).

Liquidity management

The Council regularly reviews and updates its cash flow forecasts to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Council's medium term financial plan, levels of reserves and cash flow forecast.

Planned investment strategy for 2013/14

Investments are made in three broad categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Bank deposit accounts and Money Market Funds will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. Preference will continue to be given to investments with UK banks with approved credit ratings.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Decisions on making longer term investments (i.e. over 1 year) will be considered during the year after taking account of the interest rate yield curve, levels of core cash and the amount of temporary internal borrowing related to funding of capital spend. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The use of external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments may be considered.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to potentially significant savings on the interest rate differential, this strategy can also help to manage the Council's exposure to credit risk and interest rate risk.

Review Reports

The revised CIPFA Code of Practice requires that both mid year and annual review reports on treasury activities are reported to Full Council.

Other Matters

The CLG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy:

<u>Treasury management advisers</u>
The Council's treasury management adviser Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although 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.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

<u>Investment training</u>
The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

<u>Investment of money borrowed in advance of need</u>
The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the 2013/14 authorised borrowing limit of £201 million. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

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Proposed Counterparty List
2013/14

CRITERIA	Duration	Council Limit (£m)	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Support	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
			F1	A	3	P-1	A2	A-1	A
UK Banks	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Barclays Bank	3 Years	15	F1	A	1	P-1	A2	A-1	A+
HSBC Bank plc	5 Years	20	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group									
Lloyds TSB Bank	3 Years	15	F1	A	1	P-1	A2	A-1	A
Bank of Scotland	3 Years	15	F1	A	1	P-1	A2	A-1	A
RBS Group									
National Westminster Bank	18 Months	10	F1	A	1	P-2	A3	A-1	A
Royal Bank of Scotland	18 Months	10	F1	A	1	P-2	A3	A-1	A
Santander UK plc **(domiciled in UK)**	6 Months	5	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	5 Years	20	F1+	AA-	1	P-1	A1	A-1	AA-
UK Building Societies									
Nationwide	3 Years	15	F1	A+	1	P-1	A2	A-1	A+
Yorkshire	3 Months	2	F2	BBB+	5	P-2	Baa2	A-2	A-
Coventry	3 Months	2	F1	A	5	P-2	A3	-	-
Leeds	3 Months	2	F2	A-	5	P-2	A3	-	-
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Australia & New Zealand Banking Group	18 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	18 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank									
National Australia Bank	18 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	18 Months	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Austria	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
Raiffeisen Bank International AG	6 Months	5	F1	A	1	P-1	A2	A-1	A
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	1 Year	10	F1+	AA-	1	P-1	Aa2	A-1	A+
Bank of Nova Scotia	1 Year	10	F1+	AA-	1	P-1	Aa1	A-1	A+
Canadian Imperial Bank of Commerce	1 Year	10	F1+	AA-	1	P-1	Aa2	A-1	A+
Royal Bank of Canada	18 Months	10	F1+	AA	1	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	18 Months	10	F1+	AA-	1	P-1	Aaa	A-1+	AA-
France	**Sovereign Rating**			**AAA**			**Aa1**		**AA+**
BNP Paribas Group									
BNP Paribas	6 Months	5	F1+	A+	1	P-1	A2	A-1	A+
Groupe Credit Mutuel									
Banque Federative du Credit Mutuel	1 Year	10	F1+	A+	1	P-1	Aa3	A-1	A+
Credit Industriel et Commercial	1 Year	10	F1+	A+	1	P-1	Aa3	A-1	A+
Group BPCE									
BPCE	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Group Credit Agricole									
Credit Agricole	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Credit Agricole Corp. & Investment Bank	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Societe Generale	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Germany	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Deutsche Bank	6 Months	5	F1+	A+	1	P-1	A2	A-1	A+
DZ Bank	1 Year	10	F1+	A+	1	P-1	A1	A-1+	AA-
FMS Wertmanagement	5 Years	10	F1+	AAA	1	P-1	Aaa	A-1+	AAA
KfW Bankengruppe	5 Years	10	F1+	AAA	1	P-1	Aaa	A-1+	AAA
Landesbank Berlin AG	1 Year	10	F1+	A+	1	P-1	A1	-	-
Landesbank Hessen-Thuringen	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Netherlands	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank Nederlandse Gemeenten	5 Years	10	F1+	AAA	1	P-1	Aaa	A-1+	AAA
ING Bank NV	6 Months	5	F1+	A+	1	P-1	A2	A-1	A+
Rabobank Group	18 Months	10	F1+	AA	1	P-1	Aa2	A-1+	AA-
Norway	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
DNB NOR Bank	1 Year	10	F1	A+	1	P-1	A1	A-1	A+
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Development Bank of Singapore	18 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	18 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank	18 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-

Proposed Counterparty List
2013/14

CRITERIA	Duration	Council Limit (£m)	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Support	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
			F1	A	3	P-1	A2	A-1	A
Sweden	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Nordea Group									
Nordea Bank AB	18 Months	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Nordea Bank Finland plc	18 Months	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Skandinaviska Enskilda Banken (SEB)	1 Year	10	F1	A+	1	P-1	A1	A-1	A+
Svenska Handelsbanken	18 Months	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Swedbank AB	6 Months	5	F1	A+	1	P-1	A2	A-1	A+
Switzerland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Credit Suisse	6 Months	5	F1	A	1	P-1	A1	A-1	A+
UBS AG	6 Months	5	F1	A	1	P-1	A2	A-1	A
USA	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
Bank of New York Mellon	18 Months	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
J P Morgan Chase Bank NA	1 Year	10	F1	A+	1	P-1	Aa3	A-1	A+
Wells Fargo Bank NA	18 Months	10	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Supernational									
Council of Europe Development Bank	3 Years	10	F1+	AA+	-	P-1	Aaa	A-1+	AA+
European Bank for Reconstruction & Dev	10 Years	25	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank	5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA

Credit Rating Matrix - UK Banks, Building Societies & Other Organisations from 1st April 2013

Total Limit	Maximum Term	Long Term	Support	Long Term	Long Term
£2M*	3 Months*	BBB	5	Baa2	BBB
£10M	18 Months	A-	3	A3	A-
£15M	3 Years	A	3	A2	A
£20M	5 Years	A+	1	A1	A+
£20M	10 Years	AA	1	Aa2	AA
£25M	10 Years	AAA	1	Aaa	AAA

* This amount & tier is only applicable to UK Building Societies with an asset size of £4billion or

Credit Rating Matrix - Foreign Banks & Other Organisations from 1st April 2013

Total Limit	Maximum Term	Long Term	Support	Long Term	Long Term
£5M	6 Months	A	3	A2	A
£10M	1 Year	A+	3	A1	A+
£10M	18 Months	AA-	3	Aa3	AA-
£10M	2 Years	AA	2	Aa2	AA
£10M	3 Years	AA+	2	Aa1	AA+
£10M	5 Years	AAA	1	Aaa	AAA

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	5th February 2013	**AGENDA ITEM NUMBER**
TITLE:	**Annual Governance Review 2012/13**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Annual Governance Review Process		

1. THE ISSUE

1.1 This report has been prepared to inform the Corporate Audit Committee on the work underway to complete the review to support the Annual Governance Statement 2012/13.

2. RECOMMENDATION

2.1 The Committee is asked to:

2.2 Note the process & timetable for the Annual Governance Review 2012/13.

2.3 Provide any comments about the process and the input of the Committee to the review.

3. FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4. THE REPORT

4.1 Background

4.2 In 2006 the Accounts and Audit Regulations were updated and in 2007 CIPFA/SOLACE published revised guidance 'Delivering Good Governance in Local Government'. This requires all Authority's to carry out an 'Annual Governance Review' and to publish an 'Annual Governance Statement' as part of the Council's Statutory Statement of Accounts. The process adopted by the Council for producing the statement is shown in **Appendix 1**.

4.3 The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of a council's activities including in particular those designed to ensure the council is:

- implementing policies as it intends;
- delivering high-quality services, efficiently and effectively;
- meeting its values and ethical standards;
- complying with relevant laws and regulations;
- adhering to required processes e.g. risk management;
- publishing accurate and reliable financial statements and other performance information; and
- managing human, financial, environmental and other resources efficiently and effectively.

4.4 The review is a management process and the final statement is signed off by the Chief Executive and Leader of the Council. However it is informed by a number of different sources, one of which is the Corporate Audit Committee. The Committee is required to consider the Annual Governance Statement prior to final approval and be updated on the actions identified in the previous year's statement.

4.5 A long list of issues connected to the Annual Governance review for 2011/12 was considered by the Committee in May 2012 and the final statement approved by Committee in September 2012.This included three 'Significant' issues:-

- Care Quality Commission / Ofsted Report – findings of the 'Safeguarding and Looked after Children Services' review.
- Parking Services & Bus Lane Enforcement – significant financial shortfall.
- Planning – Stowey Quarry & Planning Inspectorate findings related to Planning Committee decisions.

The Committee will be provided with an update on these 'significant' issues at the meeting scheduled in May 2013.

4.6 **<u>Annual Governance Review Process & Timetable 2012/13</u>**

4.7 Appendix 1 lays out the process and broad timetable for completion of the review. The Risk & Assurance Service will:-

- Manage the process, collating and analysing information from across the Council (Jan. to June 2013).
- Consult Senior Officers / Members to identify issues to be recorded in the Annual Governance Statement (Feb. to June 2013).
- Report to Corporate Audit Committee (May 2013).
- Obtain sign-off by Chief Executive and the Leader of the Council and make available for inclusion in the Council's Statutory Statement of Accounts (June 2013).

4.8 In May the Committee will have a further update report which will highlight an initial long list of issues for consideration along with an update on the 2011/12 statement.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 This report has been prepared to 'inform' the Committee in line with the Committee's adopted 'Terms of Reference'. Failure to report progress regarding the Annual Governance Statement would mean that the Committee is failing in its prescribed responsibility. This would also be identified through the Councils own governance review and as part of the remit of the external audit.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 CONSULTATION

7.1 A copy of this report was distributed to the S151 Officer for consultation.

Contact person	*Andy Cox (01225 477316) Jeff Wring (01225 477323)*
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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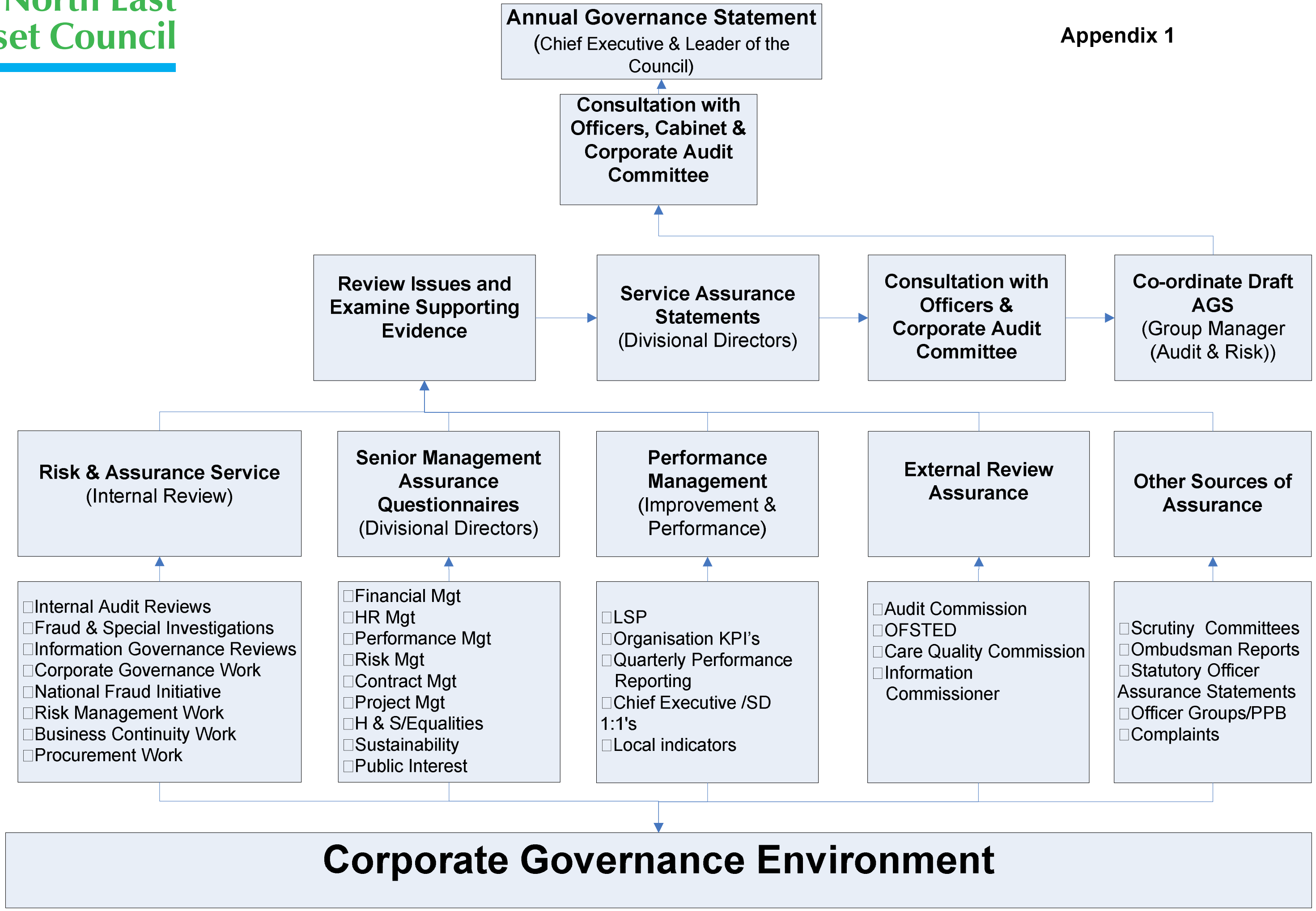
Appendix 1



Everyone is a risk manager