

OVERVIEW AND SCRUTINY COMMITTEE

Thursday 6 November 2014 at 6.30 pm

Council Chamber, Ryedale House, Malton

Agenda

1 Emergency Evacuation Procedure.

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 Apologies for absence

3 Minutes of the meeting held on the 24 September 2014

(Pages 3 - 4)

4 Urgent Business

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

5 Declarations of Interest

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

6 Corporate Risk Register 2013-17

(Pages 5 - 20)

7 Internal Audit - Quarter 2 Progress Report

(Pages 21 - 30)

8 Annual Audit Letter on the 2013/14 Audit - Deloitte

(Pages 31 - 40)

9 **Treasury Management Mid Year Review**

(Pages 41 - 50)

10 **Any other business that the Chairman decides is urgent.**

Overview and Scrutiny Committee

Held at Council Chamber, Ryedale House, Malton
on Wednesday 24 September 2014

Present

Councillors Acomb, Cussons, Mrs Shields (Vice-Chairman) and Wainwright (Chairman)

In Attendance

Audrey Adnitt, Sarah Anderson and Peter Johnson

Minutes

21 **Apologies for absence**

Apologies were received from Councillor Raper.

22 **Minutes of the meeting held on 31 July 2014**

Decision

That the minutes of the meeting of the Overview and Scrutiny Committee held on the 31 July 2014, be approved and signed by the Chairman as a correct record.

23 **Urgent Business**

There was one item of urgent business relating to the changing the date of the meeting scheduled to be held on the 12 February 2014.

24 **Declarations of Interest**

There were no declarations of interest.

25 **External Audit Report 2014**

Considered the External Audit Report for 2014

Decision

That the report be approved.

26 **Statement of Accounts 2013 - 14**

Consider the Statement of Accounts for 2013/2014.

Decision

That the Statement of Accounts be recommended to the Policy and Resources Committee for approval.

27 Letter of Representation - Audit of the annual accounts for the year ended 31 March 2014

Considered the letter of representation – Audit of the annual accounts for the year ended 31 March 2014 to be issued to Deloitte LLP.

Decision

Policy & Resources Committee be recommended to authorise the Finance Manager (s151) to sign the letter of representation.

28 External Audit quarterly update report September 2014

Considered the External Audit Progress Report for September 2014 produced by Deloitte.

Resolved

That the progress be noted.

29 Any other business that the Chairman decides is urgent.

It was **AGREED** to change the date of the Overview and Scrutiny Committee scheduled to take place on the 12 February 2014 to the 19 February 2014 at the Chairman's request.

The meeting closed at 7.20pm.

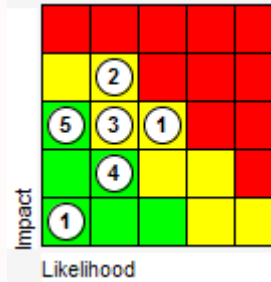
Corporate Risk Register 2013-17

Generated on: 16 October 2014




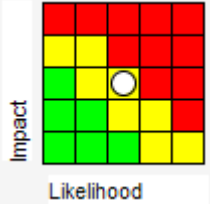
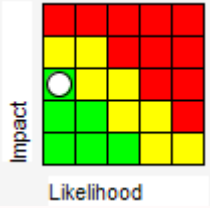
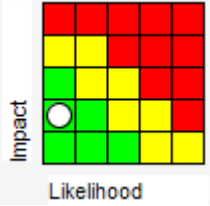
Corporate Risk Register 2014-2018

Current Risk Heat Map


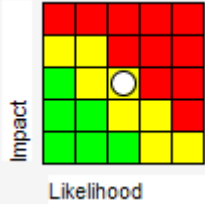
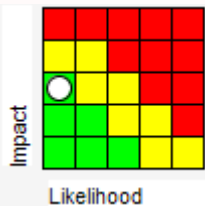
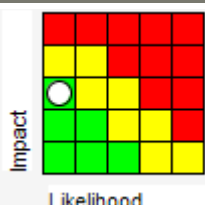


Summary


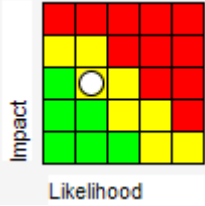
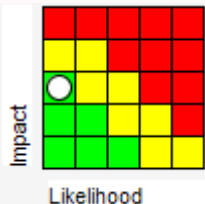
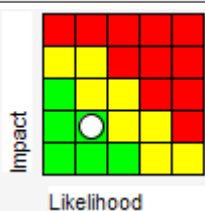
Status	Code	Title	Status	Code	Title
Page 5 ✔	CRR 01	Significant Partnerships	⚠	CRR 11	Council Assets
✔	CRR 02	Capital Programme	⚠	CRR 12	Customer Expectations
✔	CRR 03	Staff Management	✔	CRR 13	Fraud and Corruption
⚠	CRR 04	External Funding	✔	CRR 14	Data Quality
⚠	CRR 05	Affordable Housing	✔	CRR 15	Delivering Efficiencies
✔	CRR 06	Procurement	⚠	CRR 16	Data Protection
✔	CRR 07	Health and Safety	✔	CRR 17	Regulation and Investigatory Powers Act
✔	CRR 08	Emergency Planning and Business Continuity Planning	⚠	CRR 18	Legal Challenge resulting from Member decisions

CRR 01 Significant Partnerships				
Risk Code	Risk Title	Description	Status	
CRR 01	Significant Partnerships	That the Council fails to manage its partnerships effectively		
Consequences		Financial cost to the Council through partnership failure, breach of legislation by partnership with consequences for Council and its reputation, levels of service satisfaction and quality fall below acceptable levels.		
Original Matrix		Original Rating Description		
		Original Impact	C	Original Likelihood
			Medium	
Current Risk Matrix		Current Rating Description		
Page 6		Current Impact	C	Current Likelihood
			Medium	
Target Risk Matrix		Target Rating Description		
		Target Impact	B	Target Likelihood
			Minor	
Latest Progress			Last Review Date	SMT Lead
15-Oct-2014 The Audit of Partnerships which concluded with an outcome of high assurance did raise a query about the governance arrangements for the LEP. This is an issue which is being discussed currently.			24-Sep-2011	Clare Slater


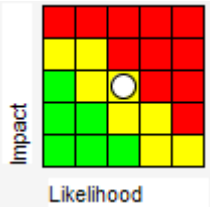
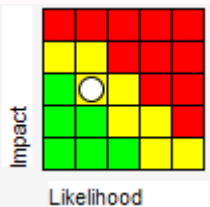
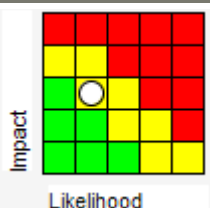
CRR 02 Capital Programme

Risk Code	Risk Title	Description		Status	
CRR 02	Capital Programme	Failure to deliver Council priorities, due to poor management of the capital programme.			
Consequences		Failure to deliver the Council priorities			
Original Matrix		Original Rating Description			
		Original Impact	C	Original Likelihood	3
			Medium		Likely
Current Risk Matrix		Current Rating Description			
		Current Impact	C	Current Likelihood	1
			Medium		Very Low
Target Risk Matrix		Target Rating Description			
		Target Impact	C	Target Likelihood	1
			Medium		Very Low
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 Progress monitoring embedded in the work of Resources Working Party, who receive bi-monthly reports with highlight reporting on individual projects. Funding for the programme from 2015/16 onwards will be reliant on £300k draw down from NHB annually.				15-Oct-2014	Peter Johnson


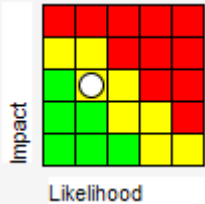
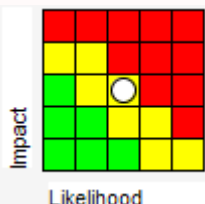
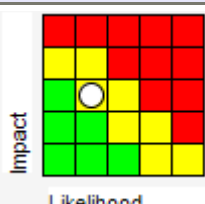
CRR 03 Staff Management


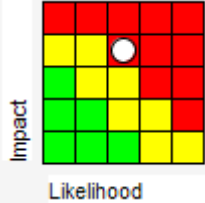
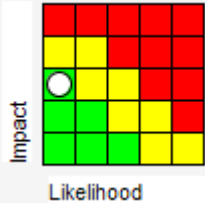
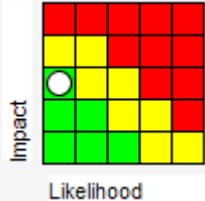
Risk Code	Risk Title	Description		Status	
CRR 03	Staff Management	Failure to effectively manage and develop our workforce assets			
Consequences		Decline in employee performance and delivery of service			
Original Matrix		Original Rating Description			
		Original Impact	C	Original Likelihood	2
			Medium		Not Likely
Current Risk Matrix		Current Rating Description			
		Current Impact	C	Current Likelihood	1
			Medium		Very Low
Target Risk Matrix		Target Rating Description			
		Target Impact	B	Target Likelihood	2
			Minor		Not Likely
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 Absence management is ongoing with performance reported monthly to Management Team and Quarterly to Members in the Council Business Plan report				15-Oct-2014	Clare Slater

CRR 04 External Funding


Risk Code	Risk Title	Description	Status		
CRR 04	External Funding	Failure to attract external funding to support the priorities of the Council			
Consequences		Failure to deliver Council priorities requiring major financial investment. Increased costs to RDC. Failure to regenerate the local economy. Uncompetitive service delivery. Withdrawal or failure of a service. Inability to deliver new services			
Original Matrix		Original Rating Description			
		Original Impact	C	Original Likelihood	3
			Medium		Likely
Current Risk Matrix		Current Rating Description			
Page 9		Current Impact	C	Current Likelihood	2
			Medium		Not Likely
	Target Risk Matrix	Target Rating Description			
	Target Impact	C	Target Likelihood	2	
		Medium		Not Likely	
Latest Progress			Last Review Date	SMT Lead	
<p>15-Oct-2014 Strategic approach to new funding opportunities being developed in response to legislation and Community Infrastructure Levy (CIL). Linked to the development of the Local Development Framework and LEP 5 year Growth Strategy.</p> <p>Increasingly Local Government is to be resourced through Business Rates retention and New Homes Bonus with less emphasis on Revenue Support Grant. As a result of this variables such as any successful Business Rate Appeals will have an impact on the Councils finances.</p>			15-Oct-2014	Peter Johnson	

CRR 05 Affordable Housing


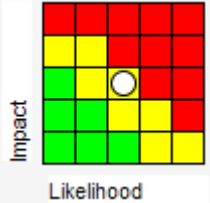
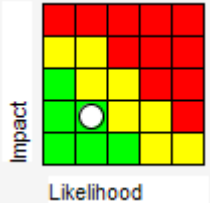
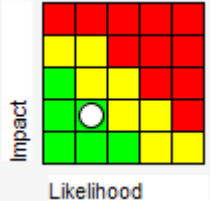
Risk Code	Risk Title	Description	Status					
CRR 05	Affordable Housing	Failure to meet identified housing need in Ryedale						
Consequences		Homelessness increases with resultant service costs. Unbalanced housing market. Negative impact on the local economy. Lack of key workers to support the needs of the community. Local people forced to move away from Ryedale.						
Original Matrix		Original Rating Description						
		Original Impact	<table border="1"> <tr> <td data-bbox="1140 437 1473 475">C</td> <td data-bbox="1478 437 1787 475" rowspan="2">Original Likelihood</td> <td data-bbox="1792 437 2145 475">2</td> </tr> <tr> <td data-bbox="1140 475 1473 654">Medium</td> <td data-bbox="1792 475 2145 654">Not Likely</td> </tr> </table>	C	Original Likelihood	2	Medium	Not Likely
C	Original Likelihood	2						
Medium		Not Likely						
Current Risk Matrix		Current Rating Description						
		Current Impact	<table border="1"> <tr> <td data-bbox="1140 695 1473 734">C</td> <td data-bbox="1478 695 1787 734" rowspan="2">Current Likelihood</td> <td data-bbox="1792 695 2145 734">3</td> </tr> <tr> <td data-bbox="1140 734 1473 912">Medium</td> <td data-bbox="1792 734 2145 912">Likely</td> </tr> </table>	C	Current Likelihood	3	Medium	Likely
C	Current Likelihood	3						
Medium		Likely						
Target Risk Matrix		Target Rating Description						
		Target Impact	<table border="1"> <tr> <td data-bbox="1140 954 1473 992">C</td> <td data-bbox="1478 954 1787 992" rowspan="2">Target Likelihood</td> <td data-bbox="1792 954 2145 992">2</td> </tr> <tr> <td data-bbox="1140 992 1473 1171">Medium</td> <td data-bbox="1792 992 2145 1171">Not Likely</td> </tr> </table>	C	Target Likelihood	2	Medium	Not Likely
C	Target Likelihood	2						
Medium		Not Likely						
Latest Progress			Last Review Date					
15-Oct-2014 Delivery of new affordable homes for 2013/14 was 40 affordable homes see Delivering the Council Plan report for further detail.			15-Oct-2014					
			SMT Lead					
			Gary Housden					


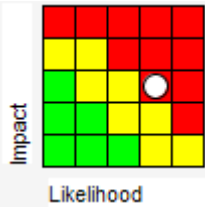
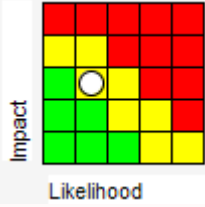
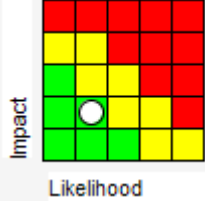
Risk Code	Risk Title	Description	Status
CRR 06	Procurement	Failure to procure in line with legislation and in line with best value principles	
Consequences		Failure to make efficiency savings. Priority projects not delivered to budget. Adverse external inspection. Breach of legislation eg. equalities or health and safety. Damage to RDC reputation.	
Original Matrix		Original Rating Description	
		D	3
		Major	Likely
Current Risk Matrix		Current Rating Description	
		C	1
		Medium	Very Low
Target Risk Matrix		Target Rating Description	
		C	1
		Medium	Not Likely
Latest Progress		Last Review Date	SMT Lead
15-Oct-2014 Procurement Partnership established and the service received by the Council is working well with savings being achieved in line with efficiency targets.		15-Oct-2014	Phil Long

CRR 07 Health and Safety


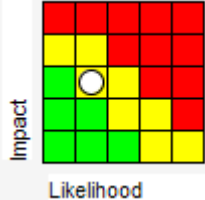
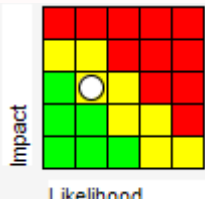
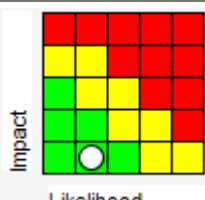
Risk Code	Risk Title	Description		Status	
CRR 07	Health and Safety	Failure to ensure appropriate systems are in place to manage Health and safety			
Consequences		Failure to meet legislative requirements, prosecution and financial penalties incurred as a result of incident.			
Original Matrix		Original Rating Description			
		Original Impact	C	Original Likelihood	3
			Medium		Likely
Current Risk Matrix		Current Rating Description			
Page 12		Current Impact	B	Current Likelihood	2
Minor			Not Likely		
Target Risk Matrix		Target Rating Description			
	Target Impact	B	Target Likelihood	2	
		Minor		Not Likely	
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 Member and officer training undertaken. Health and Safety policy framework in place. Ownership across the organisation, roles and responsibilities clarified at all levels of management				15-Oct-2014	Steve Richmond

CRR 08 Emergency Planning and Business Continuity Planning


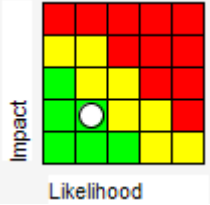
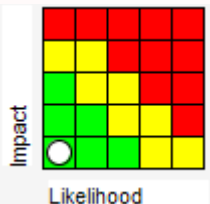
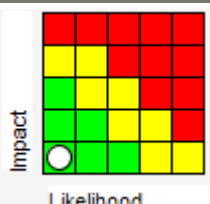
Risk Code	Risk Title	Description	Status
CRR 08	Emergency Planning and Business Continuity Planning	Failure to produce effective, comprehensive and tested plan.	
Consequences		Failure in continuity of service delivery. Negative impact on the most vulnerable on our communities. Damage to RDC reputation. Financial penalties and litigation	
Original Matrix		Original Rating Description	
		Original Impact	Original Likelihood
		Medium	Likely
Current Risk Matrix		Current Rating Description	
		Current Impact	Current Likelihood
		Minor	Not Likely
Target Risk Matrix		Target Rating Description	
		Target Impact	Target Likelihood
		Minor	Not Likely
Latest Progress			Last Review Date
15-Oct-2014 Emergency planning arrangements in place and tested. Training undertaken for all staff. Comprehensive Business Continuity Planning in place and fully tested.			15-Oct-2014
			SMT Lead
			Phil Long

Risk Code	Risk Title	Description	Status
CRR 11	Council Assets	Ensure the Council has proper plan to ensure maintenance and fitness for purpose of the Council assets	
Consequences			
Original Matrix		Original Rating Description	
	Original Impact	C	4
		Medium	Original Likelihood
Current Risk Matrix		Current Rating Description	
	Current Impact	C	2
		Medium	Current Likelihood
Target Risk Matrix		Target Rating Description	
	Target Impact	B	2
		Minor	Target Likelihood
Latest Progress			Last Review Date
15-Oct-2014 Major investment has resulted in improved facilities with significant investment into energy efficiency measures to reduce Co2 emissions			15-Oct-2014
			SMT Lead
			Phil Long


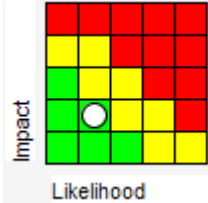
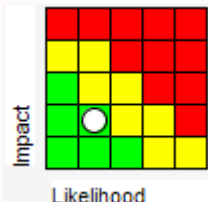
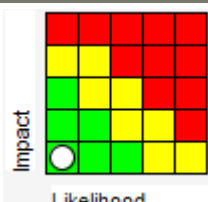
CRR 12 Customer Expectations

Risk Code	Risk Title	Description		Status	
CRR 12	Customer Expectations	Failure to meet customer service standards and meet customer expectations.			
Consequences					
Original Matrix		Original Rating Description			
		Original Impact	C	Original Likelihood	2
			Medium		Not Likely
Current Risk Matrix		Current Rating Description			
		Current Impact	C	Current Likelihood	2
			Medium		Not Likely
Target Risk Matrix		Target Rating Description			
		Target Impact	A	Target Likelihood	2
			Low		Not Likely
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 Managing customer expectations through media and communications in relation to funding challenges facing the public sector. Close monitoring of feedback received by the Council from service users and residents.				28-Sep-2011	Clare Slater


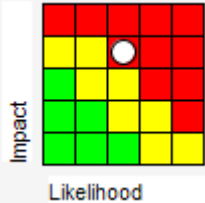
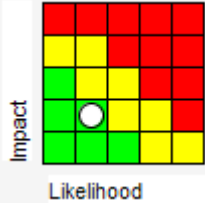
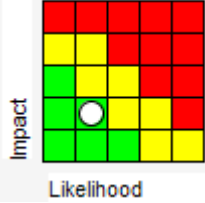
CRR 13 Fraud and Corruption


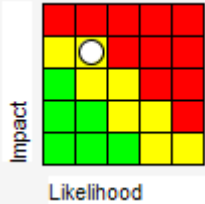
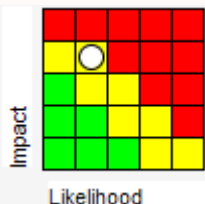
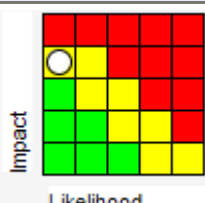
Risk Code	Risk Title	Description		Status	
CRR 13	Fraud and Corruption	Failure to ensure Council has proper procedures and policies for the prevention and detection of fraud.			
Consequences		Financial loss to the Council, damage to our reputation and credibility			
Original Matrix		Original Rating Description			
		Original Impact	B	Original Likelihood	2
			Minor		Not Likely
Current Risk Matrix		Current Rating Description			
		Current Impact	A	Current Likelihood	1
			Low		Very Low
Target Risk Matrix		Target Rating Description			
		Target Impact	A	Target Likelihood	1
			Low		Very Low
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 Arrangement with Veritau working well to deliver fraud and corruption service for Housing Benefit, currency of fraud and corruption policy maintained and training provided to managers				24-Sep-2011	Peter Johnson

CRR 14 Data Quality


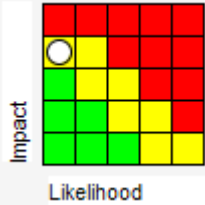
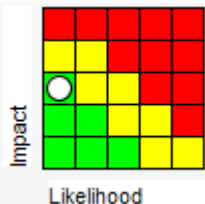
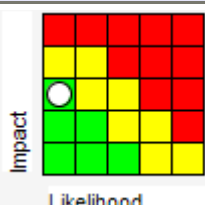
Risk Code	Risk Title	Description			Status	
CRR 14	Data Quality	The Council recognises the importance of data quality as we need reliable, accurate and timely performance information with which to manage services, inform users and account for our performance				
Consequences						
Original Matrix			Original Rating Description			
			Original Impact	B	Original Likelihood	2
				Minor		Not Likely
Current Risk Matrix			Current Rating Description			
			Current Impact	B	Current Likelihood	2
				Minor		Not Likely
Target Risk Matrix			Target Rating Description			
			Target Impact	A	Target Likelihood	1
				Low		Very Low
Latest Progress					Last Review Date	SMT Lead
15-Oct-2014 Data Quality Strategy in place and publicised to all staff. Audit of Data Quality undertaken with positive outcome					15-Oct-2014	Clare Slater

CRR 15 Delivering Efficiencies

Risk Code	Risk Title	Description		Status
CRR 15	Delivering Efficiencies	Council fails to meet efficiency targets which necessitates cuts to other services		
Consequences		Cuts to frontline services, reputational damage to the Council, possible poor outcome of external inspection.		
Original Matrix		Original Rating Description		
		Original Impact	D	3
			Major	Original Likelihood Likely
Current Risk Matrix		Current Rating Description		
		Current Impact	B	2
			Minor	Current Likelihood Not Likely
Target Risk Matrix		Target Rating Description		
		Target Impact	B	2
			Minor	Target Likelihood Not Likely
Latest Progress			Last Review Date	SMT Lead
15-Oct-2014 Successful delivery of One-11 programme achieved savings of over £1 million. Going for Gold programme achieved the target saving of £700k. A balanced budget delivered in 2013/14 and in place for 2014/15. Budget strategy being prepared for 2015/16 including £100k of efficiencies and service cuts or increased income of £200k with a forecast shortfall of £432k met from New Homes Bonus.			15-Oct-2014	Peter Johnson

Risk Code	Risk Title	Description			Status
CRR 16	Data Protection	To ensure the Council meets all of its statutory obligations relating to the protection of personal and confidential data.			
Consequences		Legal action resulting in large fines (£100k-£500k). Reputational damage and adverse publicity.			
Original Matrix		Original Rating Description			
		Original Impact	D	Original Likelihood	2
			Major		Not Likely
Current Risk Matrix		Current Rating Description			
		Current Impact	D	Current Likelihood	2
			Major		Not Likely
Target Risk Matrix		Target Rating Description			
		Target Impact	D	Target Likelihood	1
			Major		Very Low
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 A range of data protection policies are available to all staff on the intranet, in addition to regular updates based on current cases. http://intranet.ryedale.gov.uk/Default.aspx?page=6859				15-Oct-2014	Phil Long

CRR 17 Regulation and Investigatory Powers Act

Risk Code	Risk Title	Description		Status	
CRR 17	Regulation and Investigatory Powers Act	That the Council does not meet the requirements of legislation including the RIPA 2000 and the Protection of Freedoms Act 2012			
Consequences		That the Council is found to be in breach of the legislation.			
Original Matrix		Original Rating Description			
		Original Impact	D	Original Likelihood	1
			Major		Very Low
Current Risk Matrix		Current Rating Description			
		Current Impact	C	Current Likelihood	1
			Medium		Very Low
Target Risk Matrix		Target Rating Description			
		Target Impact	C	Target Likelihood	1
			Medium		Very Low
Latest Progress				Last Review Date	SMT Lead
15-Oct-2014 key responsibilities allocated to members of Management team and training undertaken.				08-Feb-2013	Phil Long



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	6 NOVEMBER 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	INTERNAL AUDIT – Q2 PROGRESS REPORT
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report summarises the outcome of internal audit work undertaken between April 2014 and 15th October 2014, inclusive.

2.0 RECOMMENDATION(S)

- 2.1 It is recommended that the Committee note the results of audit and fraud work undertaken so far during 2014/15.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit work.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit if the results of audit work are not considered by an appropriate Committee.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 This report supports the Council's Corporate Strategic Objective of providing strong Community Leadership, by demonstrating a commitment to local democracy and accountability.

6.0 REPORT DETAILS

- 6.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2011 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and CIPFA guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken, to this Committee

- 6.2 Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.
- 6.3 It is important that agreed actions are formally followed-up to ensure that they have been implemented by management. This work is carried out throughout the year with appropriate testing being completed as required. We have no matters to bring to the attention of Members.
- 6.4 In the period between 1 April and 15 October, inclusive, we have completed **2** out of **16** internal audit reviews to final report stage. **1** audit has a draft report issued. A further **4** other audits are currently in progress.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

Author: Stuart Cutts Audit Manager.
Veritau Limited
Telephone No: 01653 600666
E-Mail Address: stuart.cutts@veritau.co.uk

Background Papers:
Public Sector Internal Audit Standards
CIPFA Local Government Application Note (for the United Kingdom Public Sector Internal Audit Standards)



Ryedale District Council

Internal Audit Progress Report 2014-15

Period to 15 October 2014

Audits Completed to 15 October 2014	
High Assurance	1
Substantial Assurance	0
Moderate Assurance	1
Limited Assurance	0
No Assurance	0

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Executive
Finance Manager (S151 Officer)

Date: 6th November 2014



Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report, to those charged with governance, progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the Internal Audit Plan 2014/15 at their meeting on the 10 April 2014. The total number of planned audit days for 2014/15 is 225. The performance target for Veritau is to deliver 93% of the agreed Audit Plan by the end of the year. This report summarises the progress made in delivering the agreed plan.
- 3 This is the first Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2014/15. This report updates the Committee on the work completed between 1st April and 15th October 2014.

Internal Audit work completed in 2014/15

- 4 In the period between 1st April and 15th October 2014 we have completed **2** out of **16** internal audit reviews to final report stage. As at 15th October, **1** audit has a draft report issued and a further **4** are in progress. Planning work has started for **2** other audits.
- 5 We are on target to deliver the agreed Audit Plan by the end of the year. Further information on the progress of the audits from the agreed 2014/15 audit plan is included in **Appendix A**.
- 6 Further information on the findings from each of the two completed audits is included in **Appendix B**.
- 7 The payroll report highlighted areas where management have agreed to make improvements to the systems internal control environment. The capital programme work raised no significant risks to the Council. The audit plan is at an early stage of delivery. So it is too early to draw firm conclusions on the impact of our audit work on the overall opinion of the Head of Internal Audit on the framework of risk management, governance and controls operated at Ryedale District Council.
- 8 For all our reports we provide an overall opinion on the areas under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Further information on each of these areas is included in **Appendix C**.

9 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:

- **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice to Members as required.
- **Ongoing support to management and officers;** we meet regularly with management to listen and provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council. I attended the Management Team meeting on 6th October. I also provided and agreed a timing of work for all audits in 2014/15. We are also providing Information Governance guidance and support to the Corporate Director who is the councils newly appointed Senior Information Risk Owner (SIRO).
- **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. In 2014/15, we have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of follow up work. We will provide more information to members on this area as part of our next progress report.
- **Investigations;** We perform special investigations into specific sensitive issues as and when requested by management.

Stuart Cutts
Audit Manager
Veritau Ltd

6th November 2014

Table of 2014/15 audit assignments to 15th October 2014

Audit	Status	Assurance Level	Audit Committee
Strategic Risk Register			
Affordable Housing / New Homes Bonus	In progress		
Community Infrastructure Levy	Not started		
Capital Programme	Completed	High Assurance	November 2014
Fundamental/Material Systems			
Council Tax / NNDR	Not Started		
Sundry Debtors	Not Started		
Benefits	Planning		
Creditors	Not Started		
Income / Receipting System (s)	Not Started		
Payroll	Completed	Moderate Assurance	November 2014
General Ledger	Not started		
Capital Accounting and Asset Management	Not started		
Regularity Audits			
Risk Management Process	Planning		
Development Control	In Progress		
Member Development	Draft Report		
Technical/Project Audits			
ICT	In Progress		
Project Management	In Progress		
Follow-Ups			

Summary of Key Issues from audits completed to 15th October 2014; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Capital Programme	High Assurance	<p>The Council has a five year capital programme with a value of £8.958m. External funding is budgeted for £3.405m, leaving a cost to Ryedale DC of £5.553m.</p> <p>The effective management of the Capital Programme will contribute to the delivery of capital schemes in the most effective way.</p> <p>We reviewed the arrangements the Council has in place to effectively manage the Capital Programme.</p>	4 th July 2014	<p>Strengths We found that roles and responsibilities had been appropriately assigned. The s151 Officer, in consultation with the Chief Executive, Heads of Service and the Asset Management Group, is responsible for the preparation of the capital programme.</p> <p>The current Capital Programme is also an integral part of the Councils wider Financial Strategy 2014-18 that the Council approved on 25th February 2014.</p> <p>The Capital programme includes a Reserve List which enables Members to maintain an awareness of potential schemes. The list may be increasingly important with the rise of the Local Economic Partnership (LEP), as this list could be used to promote schemes within Ryedale.</p> <p>Weaknesses There were no weaknesses to report.</p>	-
Payroll	Moderate Assurance	<p>The Council's payroll expenditure is processed by City of York Council and so the arrangements operated by the Council involve some 'in-house' work alongside the work undertaken by City of York.</p> <p>The audit involved a review of the procedures and controls within the payroll system to ensure they were working effectively.</p>	9 October 2014	<p>Strengths We noted no evidence of staff being paid incorrectly. Transactions are being accurately recorded in the Council's accounts.</p> <p>Weaknesses There is no current contractual agreement with the City of York Council. Without a contract in place, the respective roles and responsibilities of each party are not defined. Performance cannot be measured, monitored or controlled. Currently there are assumptions made by RDC that key functions are being performed by the</p>	<p>All of the findings in our report were agreed with Management.</p> <p>A robust contractual agreement will be drawn up and signed with City of York Council.</p> <p>Management recognise the need for this information and</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>provider, such as the production and review of exception reports and the timely payment over of payroll deductions to the relevant bodies.</p> <p>Whilst there was no evidence of staff being paid incorrectly, there is currently no way to report and monitor salary expenditure at post level. Managers cannot receive salary information at post level and are unaware of how much is being paid to employees in overtime or additional hours payments.</p> <p>Some payroll control accounts are also not being reconciled on a regular basis; some balances dated back to 2011.</p> <p>There are some inconsistencies and the potential for confusion in the use of the various overtime forms. Some payroll areas would benefit from procedure notes being updated and training for those staff involved in processing the various claims, including mileage and expense claims.</p>	<p>various options are being considered to be able to provide more useful information to managers for monitoring purposes.</p> <p>Steps are being taken to address the staff shortage in the Finance Section. A new post has been proposed and one of the responsibilities of this new post will be the reconciliation of payroll control accounts.</p> <p>Procedure notes and overtime forms are to be updated and training provided to relevant that require it.</p>

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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Ryedale District Council

Annual Audit Letter

on the 2013/14 Audit

October 2014

Overview and Scrutiny Committee
Ryedale District Council
Ryedale House
Malton
North Yorkshire
YO17 7HH

14 October 2014

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2014.

Although this letter is addressed to the members of Overview and Scrutiny Committee of Ryedale District Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk and also on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

This letter has been discussed and agreed with the S151 Officer. A copy of the letter will be provided to all Members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.



Paul Thomson

Engagement Lead

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1. Key messages

Statement of Accounts

Unqualified opinion issued on 29 September 2014

In 2013/14 the Authority was required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which resulted in a number of minor changes to disclosures.

The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. The Authority achieved a good standard of financial reporting.

We issued an unqualified audit opinion on the Statement of Accounts on 29 September 2014.

Value for money conclusion

Unqualified opinion issued on 29 September 2014

We issued an unqualified value for money conclusion on 29 September 2014.

Annual Governance Statement

All relevant governance matters were adequately and appropriately disclosed

We considered the contents of the Annual Governance Statement and confirmed that the Statement adequately and appropriately disclosed relevant governance matters arising in the year.

Whole of Government accounts and audit certificate

Confirmed no audited return required on 29 August 2014

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We confirmed to the National Audit Office on 29 August 2014 that an audited return was not required for the Authority.

The certificate of completion of the audit was issued on 29 September 2014.

Financial reporting systems

No significant weaknesses noted

We did not identify any significant weaknesses in the financial reporting systems. We identified one minor control observation in our report presented to the Overview and Scrutiny Committee on 24 September 2014.

2. Responsibilities and scope

Responsibilities of the Authority and Auditors'

The Authority is responsible for maintaining the control environment and accounting records and for preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including District Councils.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of local authorities for the financial year ended 31 March 2014.

3. The audit of the accounts

Key issues arising from the audit of the accounts

Statement of Accounts

Unqualified opinion issued on 29 September 2014

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Overview and Scrutiny Committee on 24 September 2014 and there were no significant issues to report. We issued an unqualified opinion on the Authority's 2013/14 accounts on 29 September 2014, in accordance with the deadline set for local authorities. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Key issues from work performed on the Statement of Accounts

There were no misstatements noted that would impact net assets or the surplus on the provision of services

We received a complete set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. There were no misstatements noted that would impact net assets or the surplus on the provision of services.

Annual Governance Statement

The Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements

As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Authority's Governance arrangements. We have concluded that the Statement includes appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.

Whole of Government Accounts return

Confirmed no audited return required on 29 August 2014

For 2013/14 the National Audit Office set a de-minimis of £350 million income, expenditure, asset or liabilities as the threshold for issuing an opinion on the Whole of Government Accounts return. We confirmed to the National Audit Office on 29 August 2014 that on this basis an audited return was not required for the Authority.

Audit Certificate

Issued on 29 September 2014

When our audit is complete we are required to certify the closure of the audit. The certificate was issued on 29 September 2014.

4. Value for money

Background and approach

From 2010/11 the Audit Commission has introduced new requirements for local value for money (“VFM”) audit work at councils. This year, auditors were required to give their statutory VFM conclusion based on the following two criteria:

- proper arrangements for securing financial resilience: work to focus on whether the Authority has robust systems and processes to manage risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- proper arrangements for challenging how economy, efficiency and effectiveness are secured: work to focus on whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have determined our local programme of work based on our risk assessment, which is informed by a series of risk factors determined by the Audit Commission.

It should be noted that the work carried out was light touch, in line with Audit Commission guidance, focusing on updating our understanding of arrangements and controls in place. As arrangements have previously been assessed as adequate and we are not aware of any changes, we did not carry out detailed testing of the implementation of those arrangements in the current year.

The Vfm conclusion

Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2013/14 financial year. This means that we are satisfied that, in the areas reviewed, the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

During the course of our work, which focused on the risks identified by our risk assessment, we reviewed the response of the Authority to financial pressures and consider it to be appropriate. We also note that no matters of concern have been identified from the work of internal or external audit arising from reducing management as a result of reducing resources.

Financial resilience

We have also considered the financial standing of the Authority as at 31 March 2014. We have assessed this based on current/on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government's Comprehensive Spending Review in 2010 and subsequent local government finance settlements each year, the Authority is facing financial pressures over the next few years. In addition, the changes encompassed in the suite of new Acts – the Localism Act 2011, the Welfare Reform Act 2012 and the Local Government Finance Act 2012 - will put further strains on the planning and budgeting processes.

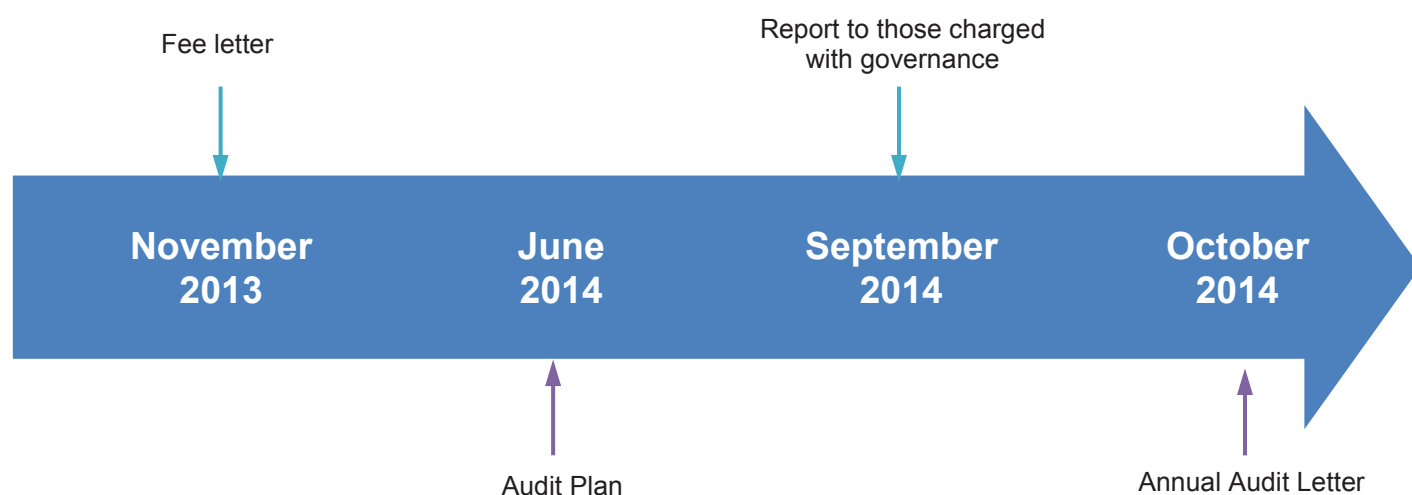
Whilst the Authority has coped well with previous government funding cuts, the anticipated future reductions in funding from 2015/16 onwards will be a significant challenge involving difficult decisions around resource prioritisation. Upon review of the medium term financial plan, we consider the response of the Authority to the financial pressures to be appropriate.

5. Other matters

Reports issued

Reports issued during the course of the 2013/14 audit included:

- Fee letter;
- Audit plan;
- Report to those charged with governance on the 2013/14 audit; and
- Annual Audit Letter.



Analysis of audit fees

Audit fees charged are as follows:

	2014 £'000	2013 £'000
Total fees for the audit of the annual accounts and whole of government accounts return (excluding VAT)	55	55
Fees payable in respect of grants claims and returns of the authority (estimate)	15	19
Total	70	74

We have not performed any non-audit services in either the current or prior year. In September 2014 we have performed a grant certification under the Homes & Communities Agency requirements for a fee of £2,000.

Grants

We have undertaken work during the year on one return made by the Authority - our work is still on-going and a separate report will be prepared in respect of the findings from this work.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party since this report has not been prepared, and is not intended, for any other purpose.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.

Deloitte.

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OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO: COUNCIL

DATE: 18 DECEMBER 2014

REPORT OF THE: FINANCE MANAGER (s151)
PETER JOHNSON

TITLE OF REPORT: TREASURY MANAGEMENT MID-YEAR REVIEW

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2014/15 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (i) Members receive this report; and
- (ii) The mid-year performance of the in-house managed funds to date is noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 The Council operates a balanced budget, which broadly means cash raised during

the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

- 5.2 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.
- 5.3 Treasury management in this context is defined as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 5.4 The CIPFA Code of Practice on Treasury Management 2009 was adopted by this Council on 22 February 2010 and this Council fully complies with its requirements.
- 5.5 The primary requirements of the Code are as follows:
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 3. Receipt by the Full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a Mid-Year Review Report and an Annual Report covering activities during the previous year.
 4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Overview and Scrutiny Committee.
- 5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:
- An economic update for the first six months of 2014/15;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Council's investment portfolio for 2014/15;
 - A review of compliance with Treasury and Prudential Limits for 2014/15.

6.0 POLICY CONTEXT

- 6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this Code.

7.0 CONSULTATION

- 7.1 The Council uses the services of Sector Treasury Services Limited to provide

treasury management information and advice.

8.0 REPORT DETAILS

Economic Update

- 8.1 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.
- 8.2 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.
- 8.3 In September, the Federal Reserve continued with its monthly \$10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from \$85bn to \$15bn and are expected to stop in October 2014, providing strong

economic growth continues. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised). The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

8.4 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt). Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

8.5 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

Treasury Management Strategy Statement and Annual Investment Strategy Update.

8.6 The Treasury Management Strategy (TMSS) for 2014/15 was approved by this Council on 25 February 2014. There are no policy changes to the TMSS, the details

in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

8.7 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Sector.

8.8 Investments during the first six months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.9 As outlined above, there is still some uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 25 February 2014 is still fit for purpose in the current economic climate.

Investment Portfolio 2014/15

8.10 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

8.11 As set out earlier in the report, it is a very difficult investment market in terms of earning the level of interest rate commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate.

8.12 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	4,910,000
Local Authorities	0
Building Societies	0
Total	4,910,000

8.13 A full list of investments held as at 30 September 2014, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first six months of 2014/15 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	10,660,000
Foreign Banks	0
Building Societies	0
Local Authorities	0
Total	10,660,000

8.14 As illustrated in the economic background section above, investment rates available

in the market are at a historical low point. The average level of funds available for investment purposes in the first six months of 2014/15 was £10.9m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

- 8.15 The table below compares the investment portfolio yield for the first six months of the year against a benchmark of the average 7 day LIBID rate of 0.35%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Cash Equivalents	6,026,667	0.50%	n/a	n/a	15,118
Fixed Term Deposits	817,500	0.76%	n/a	0.35%	18,447

- 8.16 The Council's budgeted investment return for 2014/15 is £68k and performance during the financial year to 30 September 2014 is £34k, **which is on target to achieve the budget.**
- 8.17 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Compliance with Treasury and Prudential Limits

- 8.18 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).
- 8.19 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.
- 8.20 The Council currently has no long-term borrowing, however it is likely that borrowing will take place in this financial year before forecast increases in PWLB rates. There have been no temporary borrowing transactions in the year.

9.0 IMPLICATIONS

- 9.1 The following implications have been identified:

- a) Financial
The results of the investment strategy affect the funding of the capital programme. The investment income return to 30 September 2014 was £34k, which is in line with the budgeted return.
- b) Legal
There are no additional legal implications within this report.
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

Peter Johnson

Finance Manager (s151)

Author: Peter Johnson, Finance Manager (s151)
Telephone No: 01653 600666 ext: 385
E-Mail Address: peter.johnson@ryedale.gov.uk

Background Papers:

None

Background Papers are available for inspection at:

N/a

ANNEX A

PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

	2013/14	2014/15
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	Actual	Original Estimate	Current Position	Revised Estimate
Capital Expenditure	£3.331m	£1.375m	£1.007m	£2.405m
Net borrowing requirement	-£4.708m	-£2.334m	-£10.406m	-£2.317m
Capital Financing Requirement as at 31 March	£0.254m	£2.616m	n/a	£2.633m
Annual change in Capital Financing Requirement	-£0.041m	£1.524m	n/a	£2.379m

Treasury Management Indicators

	2014/15	
	Original Limits	Revised Estimate
Authorised Limit for external debt -		
Borrowing	£20.0m	£20.0m
Other long term liabilities	£1.0m	£1.0m
Total	£21.0m	£21.0m
Operational Boundary for external debt -		
Borrowing	£5.0m	£5.0m
Other long term liabilities	£0.7m	£0.8m
Total	£5.7m	£5.8m

Investment Portfolio as at 30 September 2014

Investment by Institution	Investment £	Duration of Investment	Latest Sector Duration Band Rating	Sovereignty Rating
UK Clearing Banks				
National Westminster Bank	5,660,000	On Call	12 Months	AA+
Bank of Scotland	1,000,000	12 Months	12 Months	AA+
Bank of Scotland	1,000,000	12 Months	12 Months	AA+
Bank of Scotland	500,000	6 Months	12 Months	AA+
National Westminster Bank	1,000,000	95 Day Notice	12 Months	AA+
Bank of Scotland	500,000	6 Months	12 Months	AA+
National Westminster Bank	1,000,000	60 Day Notice	12 Months	AA+
Grand Total	10,660,000			

Fitch and Moodys Sovereignty Rating for the UK is AA+ while S&P's is AAA.
All the above borrowers met the required credit rating at the time of investment.

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