

additional papers 1

# Audit & Governance Committee

Mon 23 Jan  
2012  
7.00 pm

Council Chamber  
Town Hall  
Redditch



[www.redditchbc.gov.uk](http://www.redditchbc.gov.uk)

# Access to Information - Your Rights

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The Local Government (Access to Information) Act 1985 widened the rights of press and public to attend Local Authority meetings and to see certain documents. Recently the Freedom of Information Act 2000, has further broadened these rights, and limited exemptions under the 1985 Act.

Your main rights are set out below:-

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- Automatic right to inspect agenda and public reports at least five days before the date of the meeting.
- Automatic right to inspect minutes of the Council and its Committees (or summaries of business undertaken in private) for up to six years following a meeting.
- Automatic right to inspect lists of background papers used in the preparation of public reports.
- Access, upon request, to the background papers on which reports are based for a period of up to four years from the date of the meeting.
- Access to a public register stating the names and addresses and electoral areas of all Councillors with details of the membership of all Committees etc.
- A reasonable number of copies of agenda and reports relating to items to be considered in public must be made available to the public attending meetings of the Council and its Committees etc.
- Access to a list specifying those powers which the Council has delegated to its Officers indicating also the titles of the Officers concerned.
- Access to a summary of the rights of the public to attend meetings of the Council and its Committees etc. and to inspect and copy documents.
- In addition, the public now has a right to be present when the Council determines “Key Decisions” unless the business would disclose confidential or “exempt” information.
- Unless otherwise stated, all items of business before the Executive Committee are Key Decisions.
- (Copies of Agenda Lists are published in advance of the meetings on the Council’s Website:  
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**If you have any queries on this Agenda or any of the decisions taken or wish to exercise any of the above rights of access to information, please contact  
Denise Sunman  
Committee Support Services**

**Town Hall, Walter Stranz Square, Redditch, B98 8AH  
Tel: (01527) 64252 ext 3270 Fax: (01527) 65216  
e.mail: [denise.sunman@bromsgroveandredditch.gov.uk](mailto:denise.sunman@bromsgroveandredditch.gov.uk) Minicom: 595528**

# Welcome to today's meeting.

## Guidance for the Public

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### ***Agenda Papers***

The **Agenda List** at the front of the Agenda summarises the issues to be discussed and is followed by the Officers' full supporting **Reports**.

### ***Chair***

The Chair is responsible for the proper conduct of the meeting. Generally to one side of the Chair is the Committee Support Officer who gives advice on the proper conduct of the meeting and ensures that the debate and the decisions are properly recorded. On the Chair's other side are the relevant Council Officers. The Councillors ("Members") of the Committee occupy the remaining seats around the table.

### ***Running Order***

Items will normally be taken in the order printed but, in particular circumstances, the Chair may agree to vary the order.

***Refreshments*** : tea, coffee and water are normally available at meetings - please serve yourself.

### ***Decisions***

Decisions at the meeting will be taken by the **Councillors** who are the democratically elected representatives. They are advised by **Officers** who are paid professionals and do not have a vote.

### ***Members of the Public***

Members of the public may, by prior arrangement, speak at meetings of the Council or its Committees. Specific procedures exist for Appeals Hearings or for meetings involving Licence or Planning Applications. For further information on this point, please speak to the Committee Support Officer.

### ***Special Arrangements***

If you have any particular needs, please contact the Committee Support Officer.

Infra-red devices for the hearing impaired are available on request at the meeting. Other facilities may require prior arrangement.

### ***Further Information***

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### ***Fire/ Emergency instructions***

**If the alarm is sounded, please leave the building by the nearest available exit – these are clearly indicated within all the Committee Rooms.**

**If you discover a fire, inform a member of staff or operate the nearest alarm call point (wall mounted red rectangular box). In the event of the fire alarm sounding, leave the building immediately following the fire exit signs. Officers have been appointed with responsibility to ensure that all visitors are escorted from the building.**

**Do Not stop to collect personal belongings.**

**Do Not use lifts.**

**Do Not re-enter the building until told to do so.**

**The emergency Assembly Area is on Walter Stranz Square.**

# Declaration of Interests: Guidance for Councillors

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DO I HAVE A "PERSONAL INTEREST" ?

- Where the item relates or is likely to affect your **registered interests** (what you have declared on the formal Register of Interests)

**OR**

- Where a decision in relation to the item might reasonably be regarded as affecting **your own** well-being or financial position, or that of your **family**, or your **close associates** more than most other people affected by the issue,

you have a personal interest.

WHAT MUST I DO? **Declare the existence, and nature, of your interest and stay**

- The declaration must relate to specific business being decided - a general scattergun approach is not needed
- **Exception** - where interest arises only because of your membership of another **public body**, there is no need to declare unless you **speak** on the matter.
- You **can vote** on the matter.

IS IT A "PREJUDICIAL INTEREST" ?

In general only if:-

- It is a personal interest **and**
- The item affects your **financial position** (or conveys other benefits), or the position of your **family, close associates** or bodies through which you have a **registered interest** (or relates to the exercise of **regulatory functions** in relation to these groups)

**and**

- A member of public, with knowledge of the relevant facts, would reasonably believe the interest was likely to **prejudice** your judgement of the public interest.

WHAT MUST I DO? **Declare and Withdraw**

BUT you may make representations to the meeting before withdrawing, **if** the public have similar rights (such as the right to speak at Planning Committee).

# Audit & Governance

## Committee

23rd January 2012

7.00 PM

Committee Room 2 Town Hall

### Agenda

#### Membership:

Cllrs: Bill Hartnett (Chair) Malcolm Hall  
Rebecca Blake (Vice-Chair) William Norton  
Peter Anderson Luke Stephens  
Michael Braley  
Andrew Brazier

<p><b>6. Benefits Fraud Team - Annual Report</b> (Pages 1 - 12) Head of Finance and Resources</p>	<p>To consider the Annual Report of the Benefits Fraud Team. (Report attached) <b>(No Specific Ward Relevance);</b></p>
<p><b>7. Treasury Management, Prudential Indicators and Minimum Revenue Provision 2012/13</b> (Pages 13 - 28) Head of Finance and Resources</p>	<p>To consider the Treasury Management Strategy, Prudential Indicators and the Minimum Revenue Provision for the 2012/13 financial year prior to approval by full Council. (Report attached) <b>(No Specific Ward Relevance);</b></p>
<p><b>10. Internal Audit - Interim Monitoring Report 2011/12</b> (Pages 29 - 52) Worcestershire Internal Audit Shared Service Manager</p>	<p>To consider: a) the Internal Audit Interim Monitoring Report for the period 1st April to 31st December 2011; and b) the Revised Internal Audit Plan for 2011/12 (Report attached) <b>(No Specific Ward Relevance);</b></p>



## **AUDIT AND GOVERNANCE COMMITTEE**

23rd January 2012

### **BENEFITS INVESTIGATIONS April – December 2011**

Relevant Portfolio Holder	Councillor Michael Braley, Corporate Management
Portfolio Holder Consulted	√
Relevant Head of Service	Teresa Kristunas, Head of Finance and Resources
Wards Affected	All Wards
Ward Councillor Consulted	
Non-Key Decision	

#### **1. SUMMARY OF PROPOSALS**

To advise Members on the performance of the Benefits Services Fraud Investigation service.

#### **2. RECOMMENDATIONS**

**The Committee is asked to RESOLVE that**

**subject to any comments, the report be noted.**

#### **3. KEY ISSUES**

##### **3.1 Financial Implications**

There are no specific financial implications.

##### **3.2 Legal Implications**

There are no specific legal implications.

##### **3.3 Service/Operational Implications**

Within the Benefits Service is a dedicated counter fraud team whose purpose is to prevent and deter fraud as well as investigating any suspicions of fraudulent claims. This report gives performance information for the team from 1st April 2011 to 31st December 2011.

##### **Background**

3.4 The Benefits Service decides entitlement to Housing Benefit and Council Tax Benefit in the local area. There are just over 8000 live benefit claims at anyone time and on average there are 99 new claims and 557 change in circumstances decided each week. Direct expenditure on Housing Benefit and Council Tax Benefit between April

## AUDIT AND GOVERNANCE COMMITTEE

23rd January 2012

2011 and December 2011 was £25,590,606. Just over half the caseload are people of working age which results in a large number of claims from customers who are moving in and out of work and also claiming other out of work benefits. Although measures have been put in place to make this transition easier for customers, it remains an area of risk of fraud entering the system. As both Housing Benefit and Council Tax Benefit are means tested benefits there are potential financial incentives to under declare income and savings or not to report a partner who is working.

- 3.5 The Investigation Service comprises a Manager, two Investigation Officers and a Support Officer, although this last position is currently vacant. All the team have completed the nationally recognised best practice qualifications in Professionalism in Security (PinS).

### Activity

- 3.6 During the nine months this report covers there were 882 fraud referrals received by the team.
- 3.7 Approximately 25% of the fraud referrals received during the period came from members of the public. An increase in referrals from this source is always experienced following reports of successful prosecutions in the local press. It is common for customers who are being interviewed under caution for benefit fraud offences to be more concerned that their name will be in the paper than actually attending Court and the consequences of that. Press releases are therefore considered to be our most valuable tool in the prevention of fraud and encouraging the public to report their suspicions.
- 3.8 Approximately 40% of the referrals for the same period came from data-matching, the majority of these through the Housing Benefit Matching Service which is a scheme run nationally for Local Authorities by the Department for Work and Pensions (DWP). Our live benefit caseload is matched on a monthly basis against records relating nationally paid benefits and tax credits, records relating to private pensions, HMRC records to identify undeclared work or savings as well as Post Office post redirection records. The other referrals under this category were raised as a result of the National Fraud Initiative. Although data matching is an excellent tool in detecting fraud, some of the data that ours has been matched against will have changed and the matches cannot be taken to be correct without further investigation.
- 3.9 The remaining referrals, approximately 35%, received were from official sources. The majority of these were within Redditch Borough Council (RBC), showing the value of maintaining awareness of benefit fraud with employees.

**AUDIT AND GOVERNANCE  
COMMITTEE**

23rd January 2012

- 3.10 Many fraud referrals relate to benefits paid by both RBC and the DWP. In these cases, a joint approach is taken to ensure that the full extent of offending is uncovered and the appropriate action is taken by both bodies. This also maximises staffing resources by preventing duplicate investigation work.
- 3.11 There were 246 positive closures during the period and 6 negative closures where fraud/error was not proven following investigation.
- 3.12 12 customers were prosecuted in this period. Of these 6 were for undeclared partners, 2 for undeclared work, 3 for undeclared capital and 1 for non-residency.
- 3.13 Cautions were accepted by customers in 26 cases. 5 of these were for undeclared partners, 14 undeclared work, 1 undeclared capital, 1 undeclared other benefit, 4 undeclared other income and 1 non-commercial tenancy.
- 3.14 Administrative penalties were accepted by customers in 3 cases. 2 of these were for undeclared capital and the other for undeclared work.
- 3.15 A further 147 cases were closed as fraud/error proven with a change to entitlement and/or overpayment of benefit established. 20 customers closed their claim following informal interviews. 27 cases were closed as fraud/error proven but with no change to benefit or overpayment. Cases where payment has been prevented are included in this category.

Impact on other areas

- 3.16 Active investigation of potential fraud can impact upon other areas of benefit administration. One of the biggest impacts is upon overpaid Housing Benefit and excess payments of Council Tax Benefit. Between April 2011 and December 2011 the team identified £170,363.15 in overpaid Housing Benefit and £49,305.18 in excess Council Tax Benefit. Some of these overpayments can be extremely large and can distort the apparent recovery rate of overpayments.
- 3.17 Some investigations also have implications on Council tenancies. In these cases the Investigation Officers work closely with appropriate Housing Officers in order for all aspects to be covered. Likewise, if the investigations identifies a potential impact for any other service area either within RBC or externally, the information will be shared.

## **AUDIT AND GOVERNANCE COMMITTEE**

23rd January 2012

### Future plans

- 3.18 As part of the Government's Welfare reform plans it is proposed to combine local authority fraud investigation staff with those of the DWP and Revenues and Customs into a Single Fraud Investigation Service (SFIS). It is suggested that this SFIS will be better placed to prevent and investigate fraud when the new Universal Credit replaces several benefits, including Housing Benefit. Recent consultation has proposed that local authority investigation staff remain with their authority between 2013 and 2015 but work to DWP priorities, then between 2015 and 2017 move to the DWP as part of the SFIS.
- 3.19 There are also plans to create a new mobile regional task force to investigate claims in high fraud areas. The Task Force will eventually be driven by an Integrated Risk and Intelligence Service (IRIS) a central hub which gathers and processes data and intelligence on fraud, error and debt. IRIS will also coordinate the gathering of data from Credit Reference Agencies.
- 3.20 Additionally there are proposals to:
- Abolish cautions as a penalty for fraud and increase asset seizure
  - Introduce a three year loss of benefit for people convicted of serious fraud.
  - Impose a minimum fraud penalty of £350 and introduce a Civil Penalty of £50 for customer negligence
  - Work closely with Crimestoppers
  - Name and shame fraudsters in local areas
- 3.21 A further impact of the Welfare Reform bill is that Council Tax Benefit will not be part of the Universal Credit, instead local schemes are to be introduced from April 2013. Consultation is currently underway about what investigative powers will be required to detect and investigate fraud within these local schemes.

### Customer / Equalities and Diversity Implications

None specific.

## **4. RISK MANAGEMENT**

Without adequate performance monitoring arrangements there is a risk that improvements in the Benefits Service will not be achieved and that additional costs are incurred. In addition, without effective counter fraud activity increased numbers of claims where no or reduced entitlement would remain in payment and add to the service cost.

## **AUDIT AND GOVERNANCE COMMITTEE**

23rd January 2012

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### **5. APPENDICES**

Sanctions comparison compared to other districts in the County.

Example cases

### **6. BACKGROUND PAPERS**

None

### **AUTHOR OF REPORT**

Name: Teresa Kristunas

E Mail: [teresa.kristunas@bromsgroveandredditch.gov.uk](mailto:teresa.kristunas@bromsgroveandredditch.gov.uk)

Tel: (01527) 64252 ext: 3295



**REDDITCH BOROUGH COUNCIL****AUDIT AND GOVERNANCE  
COMMITTEE**

23rd January 2012

**APPENDIX 1****County investigation and sanction comparison  
April 2011 September 2011**

Description	Q1	Q2	YTD
<b>No. of Investigations closed</b>			
Bromsgrove	45	90	<b>135</b>
Malvern Hills	20	26	<b>46</b>
Redditch	85	84	<b>169</b>
Worcester	40	59	<b>99</b>
Wychavon	26	31	<b>57</b>
Wyre Forest	62	58	<b>120</b>
<b>No. of Cautions accepted</b>			
Bromsgrove	15	12	<b>27</b>
Malvern Hills	3	6	<b>9</b>
Redditch	6	9	<b>15</b>
Worcester	6	12	<b>18</b>
Wychavon	4	8	<b>12</b>
Wyre Forest	3	1	<b>4</b>
<b>No. of Admin Penalties accepted</b>			
Bromsgrove	0	0	<b>0</b>
Malvern Hills	0	0	<b>0</b>
Redditch	1	1	<b>2</b>
Worcester	1	5	<b>6</b>
Wychavon	2	3	<b>5</b>
Wyre Forest	2	1	<b>3</b>
<b>No. of Prosecutions successful</b>			
Bromsgrove	0	0	<b>0</b>
Malvern Hills	6	2	<b>8</b>
Redditch	4	2	<b>6</b>
Worcester			<b>0</b>
Wychavon	4	1	<b>5</b>
Wyre Forest	8	4	<b>12</b>



## **AUDIT AND GOVERNANCE COMMITTEE**

23rd January 2012

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### **APPENDIX 2**

#### **Example cases.**

##### **FF009843**

An investigation into a 47 year old woman claiming to be a lone parent resulted in a 6 month prison sentence.

The referral on this case was made to RBC by a member of the public. The DWP were invited to join the investigation as Income Support was in payment.

Evidence was found to support the allegation and a decision was made that benefit had been incorrectly in payment since 1998.

Overpayments of £21,824.06 Housing Benefit, £4,587.69 Council Tax Benefit and £50,652.90 Income Support were identified.

In sentencing the Judge said he had considered that the fraud started with a genuine claim and became a dishonest claim which was renewed each year. He said there was no doubt over the time of the offences and whilst she accepts this was not fraud from the outset and she could have genuinely claimed £20,000 therefore he would use the £60,000 as his starting point. He accepted her early guilty plea, her responsibilities for her youngest child aged 11 years of age, the fact she was victim of domestic violence from a previous marriage, but the total amount is over £70,000 and without any question of a doubt £60,000. He said he had to see this case from the people's view who don't make false claims, the tax payer, she hasn't no means to pay the money back and the guidelines suggest immediate custody of 36 weeks which is 9 months but he was prepared to reduce this to 6 months. He said there was no doubt given 6 months immediate custody.

**AUDIT AND GOVERNANCE  
COMMITTEE**

23rd January 2012

**FF010131**

A 47 year old woman was fined £705, ordered to pay costs of £150 and a £15 victim surcharge for failing to declare her work.

This referral came through the Housing Benefit Matching Service and after initial enquiries found the suspicion to be true, the DWP were invited to join the investigation.

Overpayments of £4,164.38 Housing Benefit, £1,307.44 Council Tax Benefit and £2,546.74 Jobseeker's Allowance were identified.

In sentencing the Magistrates said this was a very serious matter and their guidelines suggest a community penalty was appropriate. They had taken into account the nature and the time span of the offence, her early guilty plea, remorse, cooperation to repay the money and decided to give her a financial penalty.

**FF012680**

A 40 year old woman accepted an administrative penalty as an alternative to prosecution for failing to declare capital she has inherited.

This referral was made by a member of the public who alleged that the money had been received from the customer's late father's estate.

The overpayment and penalty amounting to £294.49 were repaid in full when the penalty was accepted.

**FF012797**

A 39 year old man accepted a caution for failing to declare that he was living with his partner.

This investigation began after a check on the claim found that the Jobseeker's Allowance on which it had been based had ceased 2 months earlier because the customer had started work. Investigation uncovered further offences and evidence to show that the claim should never have been made.

Agreement to repay the overpayment of £1,778 at £150 a month was made at the caution appointment.

## **AUDIT AND GOVERNANCE COMMITTEE**

23rd January 2012

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### **FF012356**

A decision was made that a 41 year old woman had claimed benefit incorrectly by failing to declare that she was living with her partner.

The DWP invited RBC to join this investigation after they received information suggesting that the claim was incorrectly in payment.

Sufficient evidence was obtained for overpayments of £685.59 Council Tax Benefit, £2,500.62 Income Support and £168.30 Jobseeker's Allowance to be identified, but the level of evidence was not sufficient to prove offences to the standard required for prosecution and it was decided inappropriate for RBC to sanction in this case.



## **AUDIT & GOVERNANCE COMMITTEE**

23rd January 2012

### **TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2012/13**

Relevant Portfolio Holder	Councillor Michael Braley, Portfolio Holder for Corporate Management
Portfolio Holder Consulted	
Relevant Head of Service	Teresa Kristunas, Head of Finance and Resources
Wards Affected	All Wards
Ward Councillor Consulted	
Key Decision	

#### **1. SUMMARY OF PROPOSALS**

To enable members of the Audit and Governance Committee to scrutinise the Treasury Management Strategy, Prudential Indicators and the Minimum Revenue Provision prior to approval by full Council.

#### **2. RECOMMENDATIONS**

- 2.1 **That subject to any comments, the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy for 2012/13, be approved.**

#### **3. KEY ISSUES**

##### Treasury Management Operation

- 3.1 Treasury Management is:-

“the management of the local authority’s cash flows, its bankings, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks”.

- 3.2 The approved activities of the Treasury Management operation are as follows:-

- a) Cash flow (daily balances and long term forecasting).
- b) Investing surplus funds in Approved Investments.
- c) Borrowing to finance cash deficits.
- d) Funding of capital expenditure through borrowing, capital receipts, grants or leasing.

## **AUDIT & GOVERNANCE COMMITTEE**

23rd January 2012

- e) Management of debt (including rescheduling and monitoring).
  - f) Interest rate exposure management.
  - g) Dealing procedures with brokers, banks, building societies and the Public Works Loans Board.
- 3.3 On the 1st of April 2004 the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code was introduced to support the new system of capital finance embodied in Part 1 of the Local Government Act 2003. This introduced a number of prudential indicators that impact on treasury management activity.
- 3.4 The revised guidance issued in 2009 made it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.
- 3.5 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.
- 3.6 The investment strategy for periods commencing 1st April 2010 are to be approved by full Council and published.

### Prudential Indicators

- 3.7 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; also, that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 3.8 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include indicative limits or ratios, these are for the local authority to set for itself subject to the controls under [clause 4] of the Local Government Act 2003.

### Minimum Revenue Provision (MRP)

- 3.9 The requirement to make a MRP is contained within the Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008.

## **AUDIT & GOVERNANCE COMMITTEE**

23rd January 2012

- 3.10 Following the publication of the Local Authorities (Capital Finance and Accounting) Regulations issued on the 26th February 2008 local authorities are required to prepare an annual statement of policy for making a MRP. The annual statement should be submitted to Council before the start of the financial year.
- 3.11 MRP is the amount of revenue which an authority sets aside for the repayment of the principal element of any borrowing undertaken to finance capital expenditure. The interest cost of borrowing continues to be a direct charge to revenue. The new regulations that came into force on the 31st March 2008 impose a duty on the Council to make an amount of MRP which it considers to be a “prudent provision”.
- 3.12 The broad aim of “prudent provision” is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant. This authority does not have any borrowing supported by Revenue Support Grant.
- 3.13 MRP is calculated in the financial year after the capital expenditure has been incurred and so the capital spend in 2011/12 informs the MRP set aside in the revenue account for 2012/13. The new regulations have added an exception to this in that if expenditure has been incurred on an asset which has not become operational then MRP does not need to be set aside until the financial year after the asset becomes operational. In effect authorities are entitled to a “MRP holiday” until the new asset becomes operational.
- 3.14 The turmoil within financial markets, in particular the failing of a number of Icelandic banks and the issue with Northern Rock has highlighted the risks associated with treasury management activities.
- 3.15 The strategy adopted by many local authorities has been to protect capital sums with minimal returns on investments. There are now only a handful of institutions with a F1+ credit rating.
- 3.16 The bank base rate has remained at 0.5% since 5th March 2009.
- 3.17 On 20th October 2010 HM Treasury issued an instruction to the PWLB to increase the interest rate on all new loans by an average of 1% above UK Government Gilts. The borrowing rate for new fixed loans increased by approximately 0.87% and by 0.90% across variable rates. In September 2011 HM Treasury announced that these increases would be removed for authorities required to make payments to the

## AUDIT & GOVERNANCE COMMITTEE

23rd January 2012

Department for Communities and Local Government (CLG) as part of the Housing Revenue Account reforms.

- 3.18 The Council currently has £15 million which it invests for periods up to one year. These monies are currently invested with a number of banks and building societies at rates ranging from 0.95% and 2.0%. It is proposed that these monies are lent by the General Fund to the Housing Revenue Account as a contribution to the £99,512,000 that is due to be paid to the CLG on the 28th March 2012. In return the General Fund would receive interest based on the rate charged by the Public Works Loans Board on the monies borrowed from that source in respect of self-financing. This is estimated to amount to £540,000.

### Capital Resources

- 3.19 The Council's capital programme for 2012/13 shows a requirement for capital resources of £9.4 million. In order to fund the 2012/13 capital programme the Council will need to undertake further prudential borrowing of £2.1 million. The availability of capital receipts from asset disposals is limited because of market conditions.
- 3.20 The Council currently has £5.0 million of long term borrowing relating to housing capital expenditure. Further long term borrowing will be undertaken on or before the 28th March 2012 in order to make the payment of £99,512,000 to the CLG and to replace most of the housing short term borrowing. The remainder of the Council's borrowing is currently undertaken on a short-term basis. Further long term borrowing will be undertaken when market conditions are favourable.
- 3.21 The decision on when borrowing will be taken up will depend on expenditure plans and market conditions. The Council only has the power to borrow to fund capital expenditure. From 1st April 2012 the Council will have a limit (Debt Cap) on borrowing for housing purposes currently estimated at £118,040,000.

### Prudential Indicators

- 3.22 The Council is required to publish the following indicators introduced by the Code for the next and following two financial years:
- a) Actual and estimated capital expenditure,
  - b) Ratio of financing costs to net revenue stream,
  - c) Capital financing requirement,
  - d) Actual limit for external debt,

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

- e) Operational boundary for external debt,
- f) Council tax implications of the incremental effect of capital decisions,
- g) Treasury Management indicators.

3.23 The prudential indicators for the forthcoming and following years must be set before the beginning of the financial year. They may be revised at any time, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

Capital Expenditure

3.24 The estimates of capital expenditure for 2011/12 and future years included in the Council's approved capital programme are:

Approved Programme	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
HRA	7,115.0	7,050.0	7,950.0	7,260.0
General Fund	12,613.0	2,348.7	2,046.0	962.0
Total Approved Programme	19,728.0	9,398.7	9,996.0	8,222

Ratio of Financing Costs to Net Revenue Stream

3.25 The financing costs include the amount of interest payable and receivable in respect of borrowing and investments. The Net Revenue Stream for the HRA is the amount to be met from housing rents and for the General Fund it is the "amount to be met from government grants and local taxation". The estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Ratio of financing costs to net revenue stream				
	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
HRA	1.6	21.2	20.2	19.2
General Fund	(0.5)	(3.6)	(3.5)	(3.4)

3.26 The figures in the above table are shown as negatives where the interest received from temporary and long term investments is estimated to exceed the cost of temporary borrowing. The significant

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

changes in 2012/13 are due to the borrowing the HRA self-financing and the use by the HRA of the monies previously invested externally.

Net Revenue Streams for 2011/12 and 2012/13

3.27 The Net Revenue Stream for the HRA is calculated as follows:

	2011/12 Estimate £	2012/13 Initial £
Dwelling rents	19,827,780	22,682,180
Non-dwelling rents	516,730	484,000
Charges for services and facilities	188,460	190,280
Less		
Negative subsidy	6,037,140	0
Net Revenue Stream	14,495,830	23,356,460

3.28 The Net Revenue Stream for the General Fund is calculated as follows:

	2011/12 Estimate £	2012/13 Estimate £
Revenue Support Grant	1,108,936	80,099
Non-Domestic Rates	3,587,596	4,132,050
Council Tax	5,774,800	5,784,189
Council Tax Grant	144,173	144,397
Collection Fund	19,956	0
Net Revenue Stream	10,635,461	10,140,735

Capital Financing Requirement

3.29 The capital financing requirement is a measure of the extent to which the Council needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Council has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows, and the day to day position of external borrowing and investments constantly changes. The closing Capital Financing Requirement for 2010/11 was £31.066 million.

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

Capital Financing Requirement				
	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
HRA	118,040	118,040	118,040	118,040
General Fund	18,500	20,600	21,600	22,600
Total	136,540	138,640	139,640	140,640

Prudential Indicators

- 3.30 CIPFA's Prudential Code for Capital Finance includes the following key indicator of prudence:
- 3.31 "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financial Requirement for the current and next two years."
- 3.32 As at the 31st March 2011 the Council's borrowing exceeded its investments by £23.3 million.

External Debt

- 3.33 In respect of any external debt, it is recommended that the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years. The Authorised Limit for external debt for the forthcoming year is the statutory limit determined under Section 3 (1) of the Local Government Act 2003: "A local authority shall determine and keep under review how much money it can afford to borrow."
- 3.34 The Authorised Limits are consistent with the current capital programme and the proposals for capital expenditure included in the Medium Term Financial Plan and the Council's Capital Strategy. The limits are based on the most likely financial circumstances but with an allowance made for unusual cash movements. It is not anticipated that any borrowing will be undertaken except temporarily until further revenues are received.

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

Authorised Limit for External Debt				
	2011/12 Revised Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	137,000	140,000	145,000	150,000
Other long term liabilities	0	0	0	0
Total	137,000	140,000	145,000	150,000

- 3.35 The Council is asked to approve the following Operational Limit for external debt for the same period. The Operational Limit is based on the same estimates as for the Authorised Limit but differs in that it does not take into account the allowance for unusual cash movements.

Operational Limit for External Debt				
	2011/12 Revised Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing	141,000	145,000	150,000	155,000
Other long term liabilities	0	0	0	0
Total	141,000	145,000	150,000	155,000

- 3.36 The Council's actual external debt at the 31st March 2011 was £33.825 million (£28.561 million in short term borrowing and £5.3 million long term borrowing). It should be noted that the actual external debt is not directly comparable to the authorised limit and the operational boundary, since the actual external debt reflects the position at one point in time. The figures above reflect the £99.512 million to be paid to the CLG on or before the 28th March 2012.

Treasury Management

- 3.37 The Council has previously adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Interest rate risk management is a priority and therefore the Code identifies two indicators that will provide the Operational Boundaries to the exposure to interest rate risk.
- a) Upper limits for variable rate exposure and
  - b) Upper limits to fixed rate exposure.

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

- 3.38 It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2011/12, 2012/13 and 2013/14 of 100% and on its variable interest rate exposures on 50%. This limit on variable rates is consistent with the current approved limit.
- 3.39 The medium term strategy is to undertake borrowing for capital expenditure. The timing of any longer term borrowing will depend on interest rates and the profile of capital spend.
- 3.40 The Council's investments are held in a relatively flexible form and therefore fixed interest rate exposure is not considered to be a significant risk.

Maturity Structure of any Fixed Rate Borrowing (as a percentage of total projected borrowing that is fixed rate)		
	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

- 3.41 The Council has recalled its externalised investments of £15 million, which originated in relation to the Council's reserved capital receipts. This sum is invested by the in-house team. It is proposed that these monies are utilised by the HRA to reduce the amount to be borrowed from the PWLB and at the same time generate an interest receipt for the General Fund. The Code requires that authorities set out the total principal of sums invested for periods longer than 364 days and set an upper limit for each forward financial year for the maturity of these investments. The purpose of the indicator is to manage the investment portfolio within good treasury management practice guidelines and ensure there is a spread of investment maturities to reduce risks inherent in interest rate volatility. The following limits are recommended.

Total principal sums invested for periods longer than 364 days	
	£ million
31 March 2011	0.0
31 March 2012	0.0
31 March 2013	0.0

**AUDIT & GOVERNANCE  
COMMITTEE**

23rd January 2012

**Minimum Revenue Provision Policy**

- 3.42 For all unsupported (prudential) borrowing the Minimum Revenue Provision (MRP) will be based on the estimated life of the assets financed by borrowing in accordance with the MRP guidance.

**Self-financing for housing**

- 3.43 The underlying principle of introducing self-financing for the Housing Revenue Account is that it should be at no detriment to the General Fund. In order to achieve it is proposed that the current long term loan of £5 million continues to be allocated to the HRA and that the current short term borrowing in respect of HRA capital expenditure is replaced with long term borrowing from the PWLB at the proposed preferential rates. There will then be two separate loans/borrowing funds one for the HRA and one for the General Fund. All other cash flow related transactions will be pooled and the costs allocated as at present.

**Financial Implications**

- 3.44 The financial implications are contained throughout the report.

**Legal Implications**

- 3.45 Section 151 of the Local Government Act 1972, the authority has to make arrangements for the proper administration of its financial affairs. The Council has previously resolved to comply with the CIPFA Code of Practice on Treasury Management. Under the Code of Practice the Council is required to approve the Treasury Management Strategy and Annual Investment Strategy before the start of the financial year.
- 3.46 Guidance issued under Section 15 (1) (a) of the Local Government Act 2003 requires the Council to approve an Annual Investment Strategy before the start of the financial year.
- 3.47 The treasury management code of practice requires all organisations covered by it to have a treasury management strategy stating the policies and objectives of its treasury management function.
- 3.48 On the 16th November 2009 the Department for Communities and Local Government issued a consultation paper on various changes to the prudential Capital Finance system introduced by the Local Government Act 2003. The revised guidance impacted on an authority's investment strategy.
- 3.49 In order to comply with the requirement of the Local Government Act 2003 the Council needs to approve a range of prudential indicators as

## **AUDIT & GOVERNANCE COMMITTEE**

23rd January 2012

detailed in the body of this report before the start of the forthcoming financial year. At the same time the Council also needs to approve a Minimum Revenue Provision Policy.

### **Service/Operational Implications**

- 3.50 The Council's policy regarding borrowing and investments is contained in its Treasury Management Strategy.
- 3.51 This report will determine the Council's policy on making a MRP for 2012/13.
- 3.52 The performance management implications are detailed in the report.

### **Customer / Equalities and Diversity Implications**

- 3.53 There are no implications identified.

## **4. RISK MANAGEMENT**

- 4.1 The Council needs to ensure that the risks associated with the treasury function have been properly identified and evaluated. The risks include interest rate exposure, counterparty or credit risk, liquidity (insufficient cash to meet liabilities) risk, funding (inability to repay or replace loans) risk, and the failure of internal controls.
- 4.2 The Council would be failing in its legal obligations under the Local Government Act 2003 if it failed to agree a set of Prudential Indicators for the forthcoming financial year and in its legal obligations under the Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 if it failed to prepare an annual statement of policy on making a MRP.

## **5. APPENDICES**

Appendix 1 – Treasury Management Strategy 2012/13

## **6. BACKGROUND PAPERS**

CIPA – Treasury Management Implications of HRA Reform

## **AUTHOR OF REPORT**

Name: Teresa Kristunas, Head of Finance and Resources  
E Mail: [teresa.kristunas@bromsgroveandredditch.gov.uk](mailto:teresa.kristunas@bromsgroveandredditch.gov.uk)  
Tel: (01527) 64252 ext 3295



# **AUDIT & GOVERNANCE COMMITTEE**

APPENDIX 1

23<sup>rd</sup> January 2012

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## TREASURY MANAGEMENT STRATEGY 2012/13

### 1.0 Objectives

The main objectives of Treasury Management are:-

a) **Borrowing**

- To effect funding in any one year at the cheapest rate commensurate with future risk.
- To forecast average future interest rates and borrowing accordingly.
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements.

b) **Investment**

- To maximise the return on investments while maintaining capital security.

c) **Cash Flow**

- To either borrow on a temporary basis to cover shortfalls in funds or make temporary investments in order to manage the Council's cash flow in the most cost effective way.
- To maintain minimum balances with the Council's bankers.

### 2.0 Sources of Financing

The following list specifies which borrowing instruments can be adopted:-

- Market – Long Term - Loans available through the London Money Market.
- Market – Temporary (up to 364 days) – Loans available through the London Money Markets.
- Public Works Loans Board – the low risk source of longer term borrowing for the Council.
- Overdraft - Redditch Borough Council has an overdraft limit of £1million with Lloyds TSB Bank plc.

# AUDIT & GOVERNANCE COMMITTEE

APPENDIX 1

23<sup>rd</sup> January 2012

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- Internal (Capital receipts and revenue balances) - including “set aside” capital receipts earmarked to repay debt used as a substitute for new borrowing.
- Leasing.

## 3.0 Borrowing Limits

The prudential indicator for the Authorised Limit for external debt for the current year is the statutory limit determined under section 3(1) of the Local Government Act 2003: “A local authority shall determine and keep under review how much money it can afford to borrow.”

## 4.0 Interest Rate Exposure

The Council will set for the forthcoming financial year and following two financial years upper limits to its exposures to the effects of changes in interest rates. These indicators will relate to both fixed interest rates and variable interest rates.

## **Annual Investment Strategy - 2012/13**

### Introduction

5.0 Guidance issued under section 15 (1) (a) of the Local Government Act 2003 requires the Council to approve an Annual Investment Strategy before the start of the financial year.

### 6.0 Objective

6.1 The objective of the Council’s Investment Strategy is to prudently invest all surplus funds held on behalf of the authority. Priority will be given to security and liquidity but at the same time maximising yield.

6.2 The Council will not borrow funds to invest.

### 7.0 Types of Investments

7.1 The investments which the Council are able to use are categorised as ‘Specified Investments’ and ‘Non-Specified’ Investments. Specified Investments offer high security and high liquidity. They must be in sterling and have a maturity of less than a year. The Strategy is for the Council to restrict its investment activity to specified investments.

### 7.2 Specified Investments

All short-term investments arising from the management of the Council’s cash flow shall be invested with:

# AUDIT & GOVERNANCE COMMITTEE

APPENDIX 1

23<sup>rd</sup> January 2012

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- the major British clearing banks, National Westminster, Lloyds TSB, HSBC and Barclays, also Coutts and Company, the wholly owned subsidiary of National Westminster,
- building societies and building society conversions that are F1 or F1+ credit rated for short-term lending'
- all other local authorities (non-capped)
- other public bodies such as universities
- 'AAA' rated Money Market Funds.

The maximum amount placed with any single institution will be £2.5 million.

## 8.0 Credit ratings.

The Council's requirements in terms of credit ratings of lending parties are notified to the broker's. The Council principally relies on the credit ratings published by Fitch Ratings, to establish the credit quality of counterparties. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used.

## 9.0 External Fund Management

The Council has withdrawn from the use of external fund managers. Investments made or committed by the Council's fund managers have been returned to the Council and are now invested in-house. No new investments will be placed by external fund managers.

The agreement with the remaining External Fund Manager was terminated in August 2007.

## 10.0 Reporting Arrangements

- 10.1 The Head of Financial, Revenues and Benefits Services will report on the prudential indicators as set out in CIPFA's Prudential Code for the coming year to the Council, at or before the start of the financial year and on the Treasury Management Strategy (including the Annual Investment Strategy) it is proposed to adopt for the forthcoming year.



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