Agenda

West Dunbartonshire COUNCIL

Audit Committee

Date:	Wednesday, 13 December 2017
Time:	10:00
Venue:	Committee Room 3, Council Offices, Garshake Road, Dumbarton
Contact:	Craig Stewart, Committee Officer Tel: 01389 737251 craig.stewart@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit Committee** as detailed above. The business is shown on the attached agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor John Mooney (Chair)
Councillor Jim Brown
Councillor Karen Conaghan
Councillor Daniel Lennie
Councillor Jonathan McColl
Councillor John Millar
Councillor Martin Rooney
Councillor Brian Walker
Mr SJ Doogan
Ms E McKerry

All other Councillors for information

Chief Executive
Strategic Director - Transformation & Public Service Reform
Strategic Director - Regeneration, Environment & Growth
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 30 November 2017

AUDIT COMMITTEE

WEDNESDAY, 13 DECEMBER 2017

AGENDA

1 APOLOGIES

2 DECLARATIONS OF INTEREST

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

3 MINUTES OF PREVIOUS MEETING **5 - 8**

Submit for approval as a correct record, the Minutes of Meeting of the Audit & Performance Review Committee held on 27 September 2017.

4 OPEN FORUM

The Committee is asked to note that no open forum questions have been submitted by members of the public.

5 TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

9 – 24

Submit report by the Strategic Lead - Resources providing an update on treasury and prudential indicators during the first half of 2017/18.

6 AUDIT ACTION PLANS **To follow**

Submit report by the Strategic Lead - Resources advising of:-

(a) recently issued Internal Audit action plans; and

(b) progress made against action plans previously issued contained within Internal Audit and External Audit reports.

7 INTERNAL AUDIT PLAN 2017/18 HALF YEAR PROGRESS REPORT TO 30 SEPTEMBER 2017 **25 - 26**

Submit report by the Strategic Lead - Resources advising of progress at the half year against the Audit Plan 2017/18.

AUDIT & PERFORMANCE REVIEW COMMITTEE

At a Meeting of the Audit & Performance Review Committee held in the Council Chambers, Clydebank Town Hall, Dumbarton Road, Clydebank on Wednesday, 27 September 2017 at 10.00 a.m.

Present: Councillors Karen Conaghan, Jonathan McColl, John Millar, John Mooney, Martin Rooney and Brian Walker.

Attending: Joyce White, Chief Executive; Angela Wilson, Strategic Director – Transformation & Public Service Reform; Stephen West, Strategic Lead – Resources; Malcolm Bennie, Strategic Lead – Communications, Culture & Communities; Colin McDougall, Audit and Risk Manager; Gillian McNeilly, Finance Manager and Craig Stewart, Committee Officer.

Also Attending: Mr Paul Craig, Senior Audit Manager and Ms Zara Mahmood, Senior Auditor, Audit Scotland.

Apologies: Apologies for absence were intimated on behalf of Councillors Jim Brown and Daniel Lennie and Lay Members Mr Stevie Doogan and Ms Eilidh McKerry.

Councillor John Mooney in the Chair

DECLARATIONS OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda.

MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit & Performance Review Committee held on 21 June 2017 were submitted and approved as a correct record.

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

A report was submitted by the Strategic Lead – Resources providing an update on treasury management during 2016/17.

After discussion and having heard the Strategic Lead – Resources and the Finance Manager in further explanation and in answer to a Member's questions, the Committee agreed to note the contents of the report.

AUDITED ANNUAL ACCOUNTS 2016/2017

A report was submitted by the Strategic Lead – Resources submitting, for Committee approval, the audited Financial Statements for 2016/17 for both the Council and the Charitable Trusts managed by the Council; and highlighting matters of interest, as delegated by Council on 28 June 2017. A revised copy of the Audit certificate (of which there had been a minor formatting issue) and a revised copy of the Notes to the Group Accounts (two figures contained within the table were not in the correct row, and had subsequently been adjusted), were circulated to Members for their information.

After discussion and having heard the Finance Manager, Strategic Lead – Resources and the Chief Executive in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1) to approve the audited Annual Accounts for 2016/17 for both the Council and the Charitable Trusts; and

(2) otherwise to note the contents of the report, and thank the officers involved for their work.

AUDIT SCOTLAND - ANNUAL AUDIT REPORTS

A report was submitted by the Strategic Lead – Resources advising of the findings of the Council's external auditors in relation to: (a) the audit of the Council and its Annual Accounts for 2016/17; and (b) the Financial Statements for the Charitable Trusts managed by the Council.

After discussion and having heard Mr Craig, Senior Audit Manager, Audit Scotland, the Chief Executive, Strategic Director and Finance Manager in further explanation and in answer to Members' questions, it was agreed:-

(1) to note the findings of these audits as detailed in Audit Scotland's reports dated 27 September 2017; and

(2) to note that these reports would also be reported to Council in October 2017.

AUDIT ACTION PLANS

A report was submitted by the Strategic Lead – Resources advising of:-

(a) recently issued Internal Audit action plans; and

(b) the progress made against action plans previously issued and contained within Internal Audit and External Audit reports.

After discussion and having heard the Audit and Risk Manager, Chief Executive and Strategic Lead – Resources in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note that the 'Acquisition and Disposal Policy – Clydebank Museum and Art Gallery' should, if delegated, be submitted to the Communications, Museums & Cultural Development Committee for its interest and for noting; and

(2) otherwise to note the contents of the report.

PUBLIC INTEREST DISCLOSURE AND OTHER INTERNAL AUDIT INVESTIGATIONS 1 JANUARY TO 30 JUNE 2017

A report was submitted by the Strategic Lead – Resources advising of public interest disclosures and other Internal Audit investigations received during the period 1 January to 30 June 2017.

After discussion and having heard the Audit and Risk Manager and the Chief Executive in further explanation and in answer to a Member's question, the Committee agreed to note the contents of the report.

The meeting closed at 11.08 a.m.

West Dunbartonshire Council

Report by the Strategic Lead - Resources

Audit Committee : 13 December 2017

Subject: Treasury Management Mid Year Report 2017/2018

1. Purpose

1.1 The purpose of this report is to provide Members with an update on treasury management during the first half of 2017/18.

2. Recommendations

2.1 Members are requested to:

(a) Note the treasury management stewardship information within the report;

(b) Approve the 2017/18 revised estimates of treasury and prudential indicators as advised within the report (Tables A, B, C, D, E, F, H, M and N);

(c) Approve the policy on the Statutory Repayment of loans fund advances detailed within paragraph 2.5 of the report;

(d) Approve the policy statement on Ethical Investment detailed within section 6.4.1 of the report; and

(e) Note that this report was submitted to Council on 25 October 2017.

3. Background

3.1 In accordance with the Treasury Policy governing the Council's treasury management activities during 2017/18, the Strategic Lead - Resources is required to provide a mid year Report to Members regarding the Treasury function.

3.2 The mid year report covers the period 1 April 2017 to 30 September 2017 and details the current position (where appropriate) and revises the 2017/18 estimates where required.

3.3 Members agreed within the Treasury Management Strategy 2012/13 - 2014/15 (as reported to Council in March 2012) to nominate the Audit Committee (previously known as the Audit and Performance Review Committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Main Issues

Treasury Management Stewardship Report

4.1 A copy of the report is attached (Appendix 1).

4.2 The report gives details of key changes to the Council's capital activity (the prudential indicators), the economic outlook, the actual and proposed treasury management activity (borrowing and investment) and the risk approach to treasury management (the treasury management indicators).

4.3 The revised estimate for capital expenditure during 2017/18 (Table A) has reduced by £19.292m from the original estimate due to ongoing forecast outturn figures for both the General Services capital plan and the HRA capital plan which are regularly reported to Members.

4.4 The external debt figures included within Table C includes both short term and long term debt due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates.

5. People Implications

5.1 There are no personnel issues.

6. Financial and Procurement Implications

6.1 There are no financial or procurement implications.

7. Risk Analysis

7.1 Although this report provides a mid year position in relation to treasury management there are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1. These risks are noted below; however the Council has robust monitoring processes in place and provides regular reports to Council and ensures further scrutiny by elected Members at the Audit and Performance Review Committee:

(a) Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;

(b) The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the Council has robust controls included within its treasury management and investment strategies that will assist in mitigating this risk; and

(c) Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

8. Equalities Impact Assessment

8.1 No equalities impact assessment was required in relation to this report.

9. Consultation

9.1 The views of Legal Services have been requested on this report and have advised there are neither any issues nor concerns.

10. Strategic Assessment

10.1 Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.

10.2 Treasury management contributes to the Financial Strategy via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans.

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Stephen West
Strategic Lead – Resources
Date: 11 October 2017

Person to Contact: Jennifer Ogilvie, Section Head (Treasury & Capital), Council Offices, Garshake Road.
Telephone (01389) 737453
Email: jennifer.ogilvie@west-dunbarton.gov.uk

Background Papers: Loans register and portfolio;
Debt rescheduling schedules;
Prudential Indicators 2017/18 to 2025/26 and Treasury Management Strategy 2017/18 to 2025/26 (Council 22 February 2017)

Wards Affected: No wards directly affected.

Mid Year Monitoring Report 2017/18
Treasury Management and Prudential Indicators
1 April 2017 to 30 September 2017

1 Introduction

1.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government in Scotland Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made as yet during 2017/18).

- Statutory Instrument (SSI) 29 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services; and the treasury activity with regard to the CIPFA Code of Practice for Treasury Management in Local Authorities.

- Statutory Instrument (SSI) 123 2016, set out statutory arrangements for local authority borrowing and lending and the requirement to maintain a loans fund and replace the statutory arrangements set out in Schedule 3 of the Local Government (Scotland) Act 1975 (Schedule 3).

1.2 The regulatory framework of treasury management requires that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously. This report meets that requirement and also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators. The treasury strategy and prudential indicators were previously reported to Council on 22 February 2017. The current position is shown (where appropriate) and revisions to the 2017/18 estimate are provided where required.

1.3 This report sets out:

- Key changes to the Council's capital activity (the prudential indicators);

- Policy on the statutory repayment of loans fund advances;

- The economic outlook;

- The actual and proposed treasury management activity (borrowing and investment);

- The risk approach to treasury management (the treasury management indicators); and
- Policy on ethical investments

2 Key Prudential Indicators

2.1 This part of the report is structured to update:

- The Council's capital expenditure plans and how these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow;
- Compliance with the limits in place for borrowing activity; and
- Policy on the statutory repayment of loans fund advances

2.2 **Capital Expenditure** – Table A shows the current position and revised estimates for capital expenditure for 2017/18 only.

2.2.1 The reduction in the both the level of anticipated capital expenditure and the net financing need for the year is due to ongoing forecast outturn figures for both the GS 10 year capital plan and the HRA capital plan in relation to spend and anticipated resources which are regularly reported to Members.

Table A:

£000	2017/18 Original Estimate	Current Position	2017/18 Projected Outturn
General Services	79,753	16,696	66,478
HRA	28,037	6,117	22,020
Capital Expenditure	**107,790**	**22,813**	**88,498**
Financed by:			
Capital receipts	15,396	2,410	12,972
Capital grants	19,535	7,451	20,672
Revenue	3,107	0	3,256
Net financing need for the year	**69,752**	**12,952**	**51,598**

2.3 **Impact of changes in Capital Expenditure Plans** – Table B shows the CFR, which is the underlying external need to borrow for a capital purpose while Table C shows the expected debt position over the period.

2.3.1 The external debt figures included within Table C now includes both short term and long term debt. This change has been made due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates. The reduction in the estimated external debt for 2017/18 is due to a reduction in the net capital financing need for the year.

2.3.2 The CFR is calculated on a year end position based on the Council's balance sheet and therefore the current position is not shown. The CFR has reduced from the original estimate due to the forecast level of capital expenditure in

2017/18 being less than budgeted. The Strategic Lead - Resources can report that the Council is on target to meet the 2017/18 revised estimates for both indicators.

Table B:

£000	**2017/18 Original Estimate**	**2017/18 Projected Outturn**
Opening CFR	**478,566**	**464,273**
New Borrowing – CFR	58,411	40,487
LTL repayment in year	(2,156)	(2,156)
Closing CFR	**534,821**	**502,604**
Movement in CFR (from Previous year)	56,255	38,331
Net financing need for the year (Table A)	69,752	51,598
Loan repayments in year	(11,341)	(11,111)
New Borrowing – CFR	**58,411**	**40,487**

Table C:

£000	**2017/18 Original Estimate**	**Current Position**	**2017/18 Projected Outturn**
External Debt			
Estimated/Actual Debt at 1 April 2017	389,544	379,523	379,523
Maturing Debt	(27,931)	(103,325)	(164,631)
<u>Movement in Borrowing</u>			
New Borrowing - Maturing Debt	27,931	103,325	164,631
New Borrowing – CFR (Table B)	58,411	11,781	40,487
Debt at 31 March (1)	**447,955**	**391,304**	**420,010**
Long Term Liabilities (LTL) at 1 April	84,316	84,316	84,316
LTL repayment in year (Table B)	(2,156)	(1,084)	(2,156)
LTL at 31 March (2)	**82,160**	**83,232**	**82,160**
Actual Debt at 31 March (1) + (2)	**530,115**	**474,536**	**502,171**
CFR from Table B	**534,821**	**n/a**	**502,604**
Under/(Over) Borrowing	**4,706**	**n/a**	**433**

2.3.3 Table C highlights that the Council is forecast to be under-borrowed by £0.433m at 31 March 2018 when compared to the CFR.

2.4 **Compliance with the limits in place for borrowing activity** – A key control over the treasury activity is a prudential indicator to ensure that over the medium term, gross borrowing will only be for a capital purpose.

Gross borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years.

The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. As discussed in section 2.3, above the current position is not shown since the CFR is calculated on a year end position. The revised indicator is detailed in Table D and is illustrated by comparing the estimated gross debt as at 31 March 2018 with the CFR as at 31 March 2020. The Strategic Lead - Resources reports that no difficulties are envisaged for the current year in complying with this prudential indicator.

Table D:

£000	**2017/18 Original Estimate**	**2017/18 Projected Outturn**
CFR at 31 March 2017		
2016/17 Estimate/Actual (From Table B above)	478,566	464,273
Estimated movement in CFR		
2017/18 (From Table B above)	56,255	38,331
2018/19	21,524	60,051
2019/20	28,070	28,689
Anticipated CFR at 31 March 2020	**584,415**	**591,344**
Gross Debt at 31 March 2018 (From Table C above)	**530,115**	**502,171**

2.4.1 The Operational Boundary is detailed in Table E below and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table E:

£000	**2017/18 Original Estimate**	**Current Position**	**2017/18 Projected Outturn**
External Debt	583,127	513,666	552,388

2.4.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which is detailed in Table F and represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table F:

£000	**2017/18 Original Estimate**	**Current Position**	**2017/18 Projected Outturn**
External Debt	636,138	569,443	602,605

2.5 **Statutory repayment of loans fund advances** – The Council is required to set out its policy for the statutory repayment of loans fund advances. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

2.5.1 A variety of options are provided to Councils so long as a prudent provision is made each year as detailed below:

- **Statutory method** – loans fund advances will be repaid by the annuity method (option 1). The Council is permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile as detailed below.

- **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures (option 2);

- **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3);

- **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

2.5.2 The policy for loans fund advances will be:

- For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method** (option 1), with all loans fund advances being repaid by the annuity method.

- Recognising that the Council has forward capital expenditure plans, has already committed to that plan and the revenue implications of that plan, the policy for loans fund advances made from 1 April 2016 to 31 March 2021 the policy will be to apply the **Statutory Method** (option 1), with all loans fund advances being repaid by the annuity method.

- For loans fund advances made after 1 April 2021, the policy for the repayment of loans advances will be to apply the following options, selecting the most suitable method from the list below for each individual advance.

    - **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3). It is likely that the equal instalment method will be used;

    - **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

3 Economic Outlook

3.1 After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak. The main reason for this has been the sharp increase in inflation and a reduction in consumer disposable income and spending power resulting in weak growth in the services sector which accounts for around 75% of gross domestic product (GDP). More recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, however, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. It looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

3.2 The Council's treasury advisor, Capita Asset Services, has provided the following interest rate forecast. The following table may seem at odds with the narrative above, however review of interest rate forecasts are based on the quarterly Bank of England Inflation Report with the next review due to take place on 6 November 2017.

Table G:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

4. Treasury Management Activity

4.1 This part of the report is structured to update:

- The Council's expected borrowing need and details of under/(over) borrowing;
- Debt rescheduling and new borrowing;
- Debt charges; and
- Investments

4.2 **The Expected Borrowing Need** – This was set out in Table C and demonstrates that the Council is currently under-borrowed to reduce risks in investments held and the cost of carry on investments (investments yield up to 0.32%, long term borrowing rates for periods greater than 25 years are approximately 2.97%). This introduces an element of interest rate risk, as longer term borrowing rates may rise; however, this position is being carefully monitored.

4.3 **Debt rescheduling and new borrowing** – The Council has not undertaken any debt rescheduling during the first half of 2017/18. Naturally maturing debt of £103.325m has been repaid which was funded by loans from other local authorities.

4.4 **Debt Charges** – The revised estimate for debt charges for both the General Fund and the HRA is shown in Table H.

Table H:

£000	2017/18 Original Estimate	Current Position	2016/17 Revised Estimate
Borrowing	23,200	11,123	22,686
Other Long Term Liabilities	8,500	4,248	8,447
Total	**31,594**	**15,371**	**31,132**

4.5 **Investments** – The objectives of the Council's investment strategy are to ensure the re-payment of the principal and interest of its investments on time with the level of investment return being a secondary objective. Following on from the economic background above, the current investment climate has one over-riding risk consideration which is the risk of default.

4.5.1 The Council held £10.072m of cash investments at 30/09/2017, and the constituent parts of the investment position are detailed in Table I:

Table I:

£000	Country	< 1 Year	1 – 2 Years	2 – 3 Years
Banks	UK	3,473	Nil	Nil
Money Market Fund		6,599	Nil	Nil
Total		10,072	Nil	Nil

4.5.2 Table J details the revised budget position for investment income. The original estimate has decreased by £0.032m.

Table J:

£000	2017/18 Original Estimate	Current Position	2017/18 Revised Estimate
Investment Income	57	12	25

4.5.3 A regulatory development to address risk is the consideration and approval of benchmarks relating to investment security, liquidity and the level of return. Benchmarks are currently widely used to assess the level of return and investment performance, however the application of security and liquidity benchmarks are more subjective in nature.

- **Security** - The Council's maximum security risk benchmark for the current portfolio in relation to investment periods of up to one year (when compared to historic default tables) was set at 0.09% and the Strategic Lead - Resources can report that there have been no defaults of principal sums invested in the year to date.

- **Liquidity** – The Strategic Lead - Resources can report that liquidity arrangements were adequate during the year to date and that the liquidity facilities and benchmarks set by the Council as noted below were maintained:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5.000m available on an overnight basis.

- **Return on Investments** – The Strategic Lead - Resources can report that investment return to date average 0.32%. Table K illustrates how this average return compares with the local benchmarks approved in February 2017.

Table K:

Benchmark	Benchmark Return	Average Return
7 day LIBID rate	0.11%	0.32%
1 month LIBID rate	0.13%	0.32%
Council's Instant Access Account	0.25%	0.32%

4.5.4 No changes are recommended to the criteria for permitted investments and the criteria remains as previously approved.

5 Key Treasury Management Indicators

5.1 This part of the report is structured to update:

- Actual and estimates of the ratio of financing costs to net revenue stream;
- Upper limits on interest rate exposure:
- The maturity structure of borrowing; and
- Total principal sums invested.

5.2 **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator (as shown below in Table L) identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream

Table L:

	2017/18 Original Estimate	2017/18 Revised Estimate
General Fund	9.36%	9.23%
HRA	28.69%	27.08%

5.3 **Upper Limits On Fixed and Variable Rate Exposure** – These indicators identify a maximum limit for fixed and variable interest rates based upon the debt position and were set at 100% and 50% respectively for 2017/18.

5.4 **Maturity Structures Of Borrowing** – These maximum limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) which are due to naturally mature in any given period as detailed in Table M.

Table M:

Maturity Structure of Fixed Interest Rate Borrowing	2017/18 Original Estimate	Current Position	2017/18 Revised Estimate
Under 12 months	50%	22.51%	50%
12 months to 2 years	50%	31.12%	50%
2 years to 5 years	50%	9.10%	50%
5 years to 10 years	50%	3.94%	50%
10 years to 20 years	50%	3.31%	50%
20 years to 30 years	50%	0.51%	50%
30 years to 40 years	50%	10.20%	50%
40 years to 50 years	100%	11.29%	100%
50 years to 60 years	100%	8.01%	100%
60 years to 70 years	100%	0%	100%

5.5 **Total Principal Funds Invested** – These limits are set to reduce the need to temporarily borrow to cover any unexpected expenditure, and show limits to be placed on investments with final maturities beyond each year-end. The Council currently invests sums for periods greater than 364 days in Clydebank Property Company and hub West Scotland as detailed in Table N.

Table N:

	2017/18 Original Estimate	Current Position	2017/18 Revised Estimate
Principal sums invested > 364 days (maximum limit £7m)	£0.501m	£0.501m	£0.501m

6 Ethical Investments

6.1 This part of the report is structured to include:

- What is ethical;
- Practical problems; and
- Policy statement

6.2 **Ethical investments** – This is the placing of funds and selecting investments in a manner that reflects an authority’s ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

6.2.1 What is “ethical” is a very subjective area as what would be deemed to be a positive criteria for one local authority could be a negative criteria for another however examples could be:

- Positive – positive environmental policy, community involvement and equal opportunities

- Negative – pollution convictions, arms trade, poor human rights records and nuclear power

6.2.2 The topic of ethical investment is very common in the field of pension funds where the fund manager has a very wide range of permitted investments e.g. domestic and international equities, bonds, corporate paper and property, derivatives, unlisted securities, currencies and unit trusts. Since 2004, local authorities have had scope to consider as wide a range of potential investments as they consider appropriate with the proper management of risk so as to ensure that council taxpayers do not suffer from adverse performance or actual losses of cash. The most commonly used form of investing is the placing of cash deposits with authorised institutions.

6.3 **Practical Problems** – There are a number of practical issues with introducing an ethical investment policy as detailed below:

- **Interbank lending** – How can a local authority be sure that cash deposits placed with bank A (who is an approved counterparty) does not then lend to bank B (who is not an approved counterparty and may directly lend to other organisation which don't have the same ethical stance) resulting in the risk that funds may be utilised indirectly.

- **Diversification** – There are very few banks which have a strong ethical stance:

    - Would an authority consider it to be reasonable to have 100% of its risk exposure in the banking sector placed with just one counterparty?

    - How would it reconcile this with observing the recommendations of the CIPFA Code of Practice on Treasury Management?

- **Use of credit ratings** – If the authority found that there are banks which were acceptable to its ethical investment policy, but had credit ratings which clearly warned that investments would not be financially secure if placed with them, then security of funds would have to take precedence.

- **Explaining losses on ethical investments to the public** – If losses were to occur on ethical investments where this was placed as a higher priority than financial security (precedence dilemma above) how would losses be explained to council tax payers?

- **Optimal Diversification and investment returns** – Risk of adverse audit comment due to lack of diversification and sub optimal returns

- **Council tax** – Risk of higher council tax/service cuts due to lower investment returns

- **Legal issues** – Every decision taken by a local authority should comply with the Wednesbury principles.

6.4 **Policy Statement** – Recognising the practical problems highlighted above the following policy statement is recommended:

6.4.1 The Council will not knowingly invest directly in organisations (including financial institutions and money market funds) whose activities and practices pose a risk of serious harm to individuals and/or groups, or whose activities are inconsistent with the Council's vision, values and priorties. This could include avoiding direct investment in organisations with material links to:

- Human rights abuse (e.g. child labour);
- Environmentally harmful activities (e.g. destruction of habitat); and
- Socially harmful activities (e.g. gambling)

6.4.2 In order to give effect to its commitment to this policy the Strategic Lead (Resources) will:

- Contact all active counterparties to advise them of this policy;
- Review on a regular basis whether any direct investment is contrary to the Council's vision, values and priorities; and
- Review the operation of this policy annually.

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 13 December 2017

Subject: Internal Audit Plan 2017/18 Half Year Progress Report to 30 September 2017

1. Purpose

1.1 The purpose of this report is to advise Members of progress at the half year against the Audit Plan 2017/18.

2. Recommendations

2.1 It is recommended that Members note the contents of this report.

3. Background

3.1 The annual audit plan for 2017/18 was approved by the Audit & Performance Review Committee on 8 March 2017. This report provides information on the progress in implementing the plan for the half year to 30 September 2017.

4. Main Issues

4.1 The Audit Plan for 2017/18 contained 13 risk based audits on Council systems and processes, together with four computer audits. For the 13 risk based audits, five are complete and three are in progress. In addition, two audits from the Audit Plan 2016/17 have been completed and one is in progress.

4.2 Of the four scheduled computer audits for 2017/18, two are in progress. The ICT Security Officer, who carries out these assignments, has been significantly focussed over recent months on overseeing work relating to Public Sector Network (PSN) accreditation. Consequently, the planned schedule of computer audits may not be fully complete for 2017/18. It should be noted that this work on PSN is of a governance nature.

4.3 The Audit and Risk Manager is pleased to report good progress across the Council on audit recommendations from completed assignments.

4.4 The Internal Audit Team and the Corporate Fraud Team continue to work together as appropriate in order to ensure a joined-up approach to fraud investigation and detection.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £170K have been identified during the first half of 2017/18, against an annual target of £180,000.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide assurances over the Council's system of internal financial control to those charged with governance. The main basis for providing assurance is coverage of the planned risk based systems audits. Every endeavour is made to ensure that no material slippage occurs in risk based systems audits by concentrating resources on these audits.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

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Stephen West
Strategic Lead - Resources
Date: 28 November 2017

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Appendices	None
Background Papers:	Audit & Performance Review Committee – 8 March 2017: Internal Audit Plan 2017/18
Wards Affected:	All wards