



**MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 19 MAY 2015
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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Committee Members Present:

Councillor K McLeod (Convener)
Councillor J Caldwell
Councillor S Currie
Councillor J Goodfellow
Councillor F McAllister

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr A McCrorie, Depute Chief Executive (Resources and People Services)
Ms M Patterson Depute Chief Executive (Partnerships and Community Services)
Mr J Lamond, Head of Council Resources
Mr T Shearer, Head of Communities and Partnerships
Mr R Montgomery, Head of Infrastructure
Ms L Shaw, Corporate Finance Manager
Mr P Vestri, Service Manager - Corporate Policy
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor
Mr S Kennedy, Risk Officer

Clerk:

Miss F Currie, Committees Assistant

Visitors Present:

Mr A Shaw, KPMG LLP
Ms S Burden, KPMG LLP

Apologies:

Councillor S Brown
Councillor A Forrest
Councillor J Williamson

Declarations of Interest:

None

1. MINUTE OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 17 MARCH 2015 FOR APPROVAL

The minute of the Committee's meeting on 17 March 2015 was approved.

2. EAST LOTHIAN COUNCIL – AUDIT AND GOVERNANCE COMMITTEE UPDATE (KPMG)

A report was submitted by KPMG to update the Committee on progress with the audit of East Lothian Council for the year ended 31 March 2015.

KPMG Director, Andy Shaw, presented the report summarising the key points, in particular the significant risks and other matters identified in the audit strategy document and the results of KPMG's control framework testing, encompassing governance and systems control. He advised Members that minor weaknesses had been detected and details of the recommendations and Management's responses were contained in the action plan.

The Head of Council Resources, Jim Lamond, responded to questions from Councillor Currie in relation to capital spending. He advised that in 2013/14 East Lothian had been one of several local authorities in Scotland to record an underspend with its capital programmes. While it was too early to say definitively, he hoped that the Council would achieve a higher level of spend relative to budget in 2014/15. The situation was complex as major investment in our planned vehicle replacement programme, as well as some major contract works payments had been delayed. However he assured Members that officers would always analyse the reasons for any underspend and reflect this within both updated plans and a report back to Council.

Decision

The Committee agreed to note the contents of the report.

3. CORPORATE RISK REGISTER

A report was submitted by the Chief Executive to present to the Committee the Corporate Risk Register 2015 for discussion, comment and noting.

The Risk Officer, Scott Kennedy, presented the report advising Members that the Risk Register had been updated following a review by the Corporate Risk Management Group and had been presented to Cabinet for approval. The 2015 Risk Register included 1 Very High risk, 7 High risks and 6 Medium risks.

In response to questions from Members, Mr Lamond confirmed that the Council would consider very closely the UK budget, expected in July, and its implications for the Council's short and longer term financial planning. He reminded Members that the Risk Register was a live document and could be updated to take account of changing circumstances.

The Chief Executive, Angela Leitch, explained that the Risk Register was 'owned' by the Council and it was therefore appropriate for it to be approved by Cabinet.

However, the Audit & Governance Committee had an important scrutiny role and any amendments or suggestions the Committee put forward would be taken on board.

Decision

The Committee agreed to note the Corporate Risk Register for 2015 and, in doing so, that:

- the relevant risks have been identified
- the significance of each risk is appropriate to the current nature of the risk;
- the total profile of corporate risk can be borne by the Council at this time in relation to the Council's appetite for risk;
- although the risks presented are those requiring close monitoring and scrutiny throughout 2015, many are in fact longer term corporate risks for the Council that are likely to be a feature of the risk register over a number of years; and
- the Council Management team will review all risks in the Corporate Risk Register on a regular basis.

4. AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND 2015 (ACCOUNTS COMMISSION, MARCH 2015)

A report was submitted by the Depute Chief Executive – Partnerships and Community Services to review East Lothian Council's position in relation to the findings of the Accounts Commission report, *'An overview of local government in Scotland 2015'*.

The Service Manager – Corporate Policy, Paolo Vestri, presented the report considering the findings of the review and the actions being taken by East Lothian Council. He explained that the report was in two parts: the first reviewed the financial context in which councils were operating; and the second part looked at how councils were managing financial challenges. He summarised the key messages of the report and the six recommendations put forward by the Accounts Commission.

Responding to a question from Councillor Currie, Mrs Leitch advised that the Council was constantly reviewing how it delivers services and referred to recent successes with shared service and partnership arrangements as evidence of its commitment to considering alternatives. She said that the Council would continue to pursue such options where it made sense to do so and where it offered increased capacity to deliver services.

In response to other questions from Members, Mr Vestri confirmed that most Councillors had attended the mandatory parts of their induction programme, although some had required reminders to do so. He also advised that the Council had highlighted the additional burden which would be placed on remaining elected Members as part of their response to the Boundary Commission's proposals to reduce councillor numbers in East Lothian.

Councillor Currie commented on an interesting report which, in his view, raised a number of questions but offered few answers. Referring to the Chief Executive's comments, he said that current and future financial constraints meant that it was more important than ever that the Council consider alternatives for delivering services and that any proposals were accompanied by a detailed options appraisal.

Decision

The Committee agreed to:

- note the position of East Lothian Council in regard to the recommendations contained in the Overview of Local Government in Scotland;
- note that a follow up elected members' training and development needs survey will be carried out before the end of 2015; and
- identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit & Governance Committee.

5. BORROWING AND TREASURY MANAGEMENT IN COUNCILS – A NATIONAL REPORT BY AUDIT SCOTLAND

A report was submitted by the Depute Chief Executive – Resources and People Services to provide the Committee with a summary of the Accounts Commission report, 'Borrowing and treasury management in councils' and the Council's actions in relation to the report's key messages.

The Corporate Finance Manager, Liz Shaw, presented the report summarising the key findings, recommendations and the position within East Lothian Council. In particular she highlighted the importance of providing additional training to support Members and of identifying and sharing best practice between local authorities.

In response to questions from Members, Ms Shaw said that the report had shown the need for councils to consider longer term financial planning rather than simply relying on 3 or 5 year budgets. She also confirmed that borrowing for capital projects such as housing would always be over a longer term and in some cases the profile could be up to 50 years.

Mr Lamond advised that all budgets presented to Council clearly state that they have met certain key tests, including that of affordability.

Councillor Currie acknowledged the advice of Audit Scotland on spending, however, he pointed out that the Council had to balance this against the demands of the Main Issues Report and the future financial implications, many of which were still unclear.

Councillor Goodfellow was sympathetic to this view but commented that funding for schools was not solely from Council Tax and that the Council's block grant should also increase in line with future population increases.

Decision

The Committee agreed to note the Accounts Commission report and the approach that is being taken to improve treasury management procedures and practices.

6. 2015 CORPORATE GOVERNANCE SELF-EVALUATION/ ANNUAL GOVERNANCE STATEMENT

A report was submitted by the Chief Executive to advise the Committee of the outcome of the 2015 Corporate Governance Self-evaluation and seek approval for the content of the Annual Governance Statement.

Mr Vestri presented the report reminding Members that Cabinet had previously approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and self-evaluation model outlined in CIPFA/SOLACE *Guidance on Delivering Good Governance in Local Government*. He advised that there were no recommendations for improvement following this year's evaluation and the improvement actions carried out over the last four years had addressed weaknesses that had been identified in previous self-evaluations.

Decision

The Committee considered the self-evaluation and agreed to approve the summary for inclusion in the Annual Governance Statement that will form part of the Council's 2014/15 Annual Accounts.

7. INTERNAL AUDIT REPORT – MANDATORY AND DISCRETIONARY FINANCIAL ASSISTANCE

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Mandatory and Discretionary Financial Assistance.

The Internal Audit Manager, Mala Garden, presented the report outlining the areas where expected controls were met and those with scope for improvement. She referred Members to the recommendations contained in the Action Plan, all of which had been accepted by Management.

Responding to a question from Councillor Goodfellow, Ms Garden advised that contract sizes varied but the average was around £5000.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

8. INTERNAL AUDIT REPORT – FRAMEWORKI PAYMENTS ON SCHEDULE

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Frameworki – Payments on Schedule.

Ms Garden presented the report which had been undertaken as part of the 2014/15 audit plan. She advised that the main objective of the audit was to ensure that the internal controls in place were operating effectively. She drew Members attention to the findings and the recommendations contained in the Action Plan, all of which had been accepted by Management.

In response to questions from Members, Ms Garden confirmed that client and billing details were checked by providers to ensure that the information on the remittance advice was correct and, where inaccuracies were identified, the Council was able to reclaim any sums paid out in error. In response to a question on the action plan, Ms Garden clarified that references to a transfer of responsibilities related to there being no Service Manager (Resources) currently in post for Adult Wellbeing.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

9. INTERNAL AUDIT REPORT – BORROWINGS

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Borrowings.

Ms Garden presented the report summarising the main findings of the audit. She referred Members to the recommendations contained in the Action Plan, all of which had been accepted by Management.

Responding to questions from Members, Ms Garden indicated that it would be for managers to determine how regularly cash flow forecasts were updated with bank balances. She explained that in four cases the original purpose of the loan was not clear but these were older loans which pre-dated the change from Lothian Region to East Lothian Council. The loans had been included in the audit as they were all still 'live' and, in all cases, the payment and balance details were correct.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

10. INTERNAL AUDIT REPORT – PENSIONS

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Pensions.

Ms Garden presented the report which had been undertaken as part of the 2014/15 audit plan. She summarised the main findings and Action Plan, confirming that all of the recommendations had been accepted by Management.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

11. INTERNAL AUDIT REPORT – PAYROLL OVERTIME

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of the recently issued audit report on Payroll Overtime.

Ms Garden presented the report summarising the main findings of the audit. She referred Members to the recommendations contained in the Action Plan, all of which had been agreed by Management.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

12. INTERNAL AUDIT PROGRESS REPORT 2014/15

A report was submitted by the Depute Chief Executive - Resources and People Services to inform the Committee of Internal Audit's progress against the annual audit plan for 2014/15.

Ms Garden presented the report which had been prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

Responding to a question from Councillor Currie, Ms Garden confirmed that the audit work plan for 2015/16 would be presented to the Committee in due course.

Decision

The Committee agreed to note the contents of Internal Audit's progress report 2014/15.

13. ANNUAL INTERNAL AUDIT REPORT 2014/15

A report was submitted by the Internal Audit Manager to provide the Committee with a summary of the work undertaken by East Lothian Council's Internal Audit Unit in 2014/15.

Ms Garden presented the report advising Members that the Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit Manager prepares an annual internal audit opinion and report to support both the Council's Annual Governance Statement and the Internal Audit Manager's Controls Assurance Statement. She summarised the contents of the report including the list of reviews completed as part of the 2014/15 audit plan.

Councillor Currie welcomed the report saying that it was hugely reassuring to know that none of the audits undertaken in 2014/15 had identified any issues of serious concern. Councillor Goodfellow echoed these comments.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report 2014/15.

14. CONTROLS ASSURANCE STATEMENT 2014/15

A report was submitted by the Internal Audit Manager informing the Committee of the Internal Audit Manager's assessment of the control environment and her report on the adequacy and effectiveness of internal controls.

Ms Garden presented the report explaining that the majority of Internal Audit recommendations made in 2014/15 were categorised as medium risk with a small

number of high risk recommendations. However, the implementation by Management of agreed actions to address these weaknesses should provide assurance that the system of internal controls is operating effectively.

Councillor Currie commended Ms Garden and her team for the report and their hard work throughout the year. He said it was important that people have confidence in the Council's financial operations. The Convenor also thanked Ms Garden and the Internal Audit team.

Decision

The Committee agreed to note the Controls Assurance Statement as a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2015.

Signed

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Councillor Kenny McLeod
Convenor of the Audit and Governance Committee

DRAFT

REPORT TO: Audit & Governance Committee
MEETING DATE: 23 June 2015
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: East Lothian Council Annual Statement of Accounts (Draft) 2014-15

2

1 PURPOSE

To provide those members charged with governance with information included within the draft 2014-15 financial statements prior to their submission to Audit Scotland.

2 RECOMMENDATIONS

- 2.1 Note that a presentation will be made at the meeting.
- 2.2 That members are asked to consider the information shared on the draft Annual Statement of Accounts for 2014-15.
- 2.3 Note the intention to submit the draft statements to Audit Scotland in accordance with statutory requirements.

3 BACKGROUND

- 3.1 As the Council's Chief Finance Officer, it is my responsibility to prepare the Annual Statement of Accounts in accordance with the proper practices set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 3.2 It is a further statutory requirement that draft, unaudited accounts be prepared and submitted to Audit Scotland no later than the 30 June.
- 3.3 In recent years, the Audit and Governance Committee has retrospectively reviewed the draft statements as submitted but as part of last year's audit process, our External Auditors (KPMG) suggested that efforts be made to enable the Audit and Governance Committee to review the draft accounts prior to their statutory submission.
- 3.4 At the time of writing, work on completing the draft statements is almost complete but will continue up to and possibly beyond today's meeting. After discussion with the Chair, Councillor McLeod, it is my intention to make a presentation to members at today's meeting highlighting the core financial statements contained within the accounts and the key financial results emerging.

3.5 It was also agreed that copies of the working draft statements would be made shared with members of the committee in advance of the meeting. These drafts would reflect the position as at 18 June.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with this report.

5 EQUALITY IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial – there are no direct resource implications arising from the recommendations made in this report.

6.2 Personnel – none.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Annual Statement of Accounts (Draft) 2014-15

AUTHOR'S NAME	Jim Lamond
DESIGNATION	Head of Council Resources
CONTACT INFO	jlamond@eastlothian.gov.uk Tel: 01620 827278
DATE	18 June 2015

REPORT TO: Audit and Governance Committee

MEETING DATE: 23 June 2015

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Annual Treasury Management Review 2014/15

3

1 PURPOSE

- 1.1 To update the Committee on Treasury Management activity during 2014/15.

2 RECOMMENDATIONS

- 2.1 Members are asked to note the report.

3 BACKGROUND

- 3.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an annual treasury management review.
- 3.2 The attached review updates members on treasury management activity during 2014/15.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report; however the Council's treasury management activity is determined by the policy framework set out in the approved treasury Management strategy.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – There are no direct financial implications associated with this report however the Council's Treasury management activity clearly has a significant impact on the management of the Council's financial resources.
- 6.2 Personnel - none
- 6.3 Other - none

7 BACKGROUND PAPERS

- 7.1 Treasury Management Strategy 2014/15 to 2016/17 – East Lothian Council 24th February 2014.

AUTHOR'S NAME	Liz Shaw
DESIGNATION	Service Manager - Corporate Finance
CONTACT INFO	lshaw@eastlothian.gov.uk
DATE	18/06/15

Annual Treasury Management Review

2014/15 – East Lothian Council

Annual Treasury Management Review 2014/15

1. Introduction

East Lothian Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved by Council 25/02/2014)
- a mid-year (minimum) treasury update report (presented to Audit and Governance Committee 18/11/2014)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

As part of its Treasury Management activity, the council takes advice from Capita Asset Services. Capita have provided the economic information and commentary in this review.

2. The Economy and Interest Rates

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in

the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

3. Overall Treasury Position as at 31 March 2015

At the beginning and the end of 2014/15 the Council's treasury position was as follows:

TABLE 1	31 March 2014 Principal	31 March 2015 Principal
	£m	£m
Total debt:		
PWLB/Market loans	339	335
PPP/Finance Leases	<u>45</u>	<u>44</u>
	384	379
CFR	407	416
Over / (under) borrowing	(23)	(37)
Total investments	0	0
Net debt	384	379

4. The Strategy for 2014/15

The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.

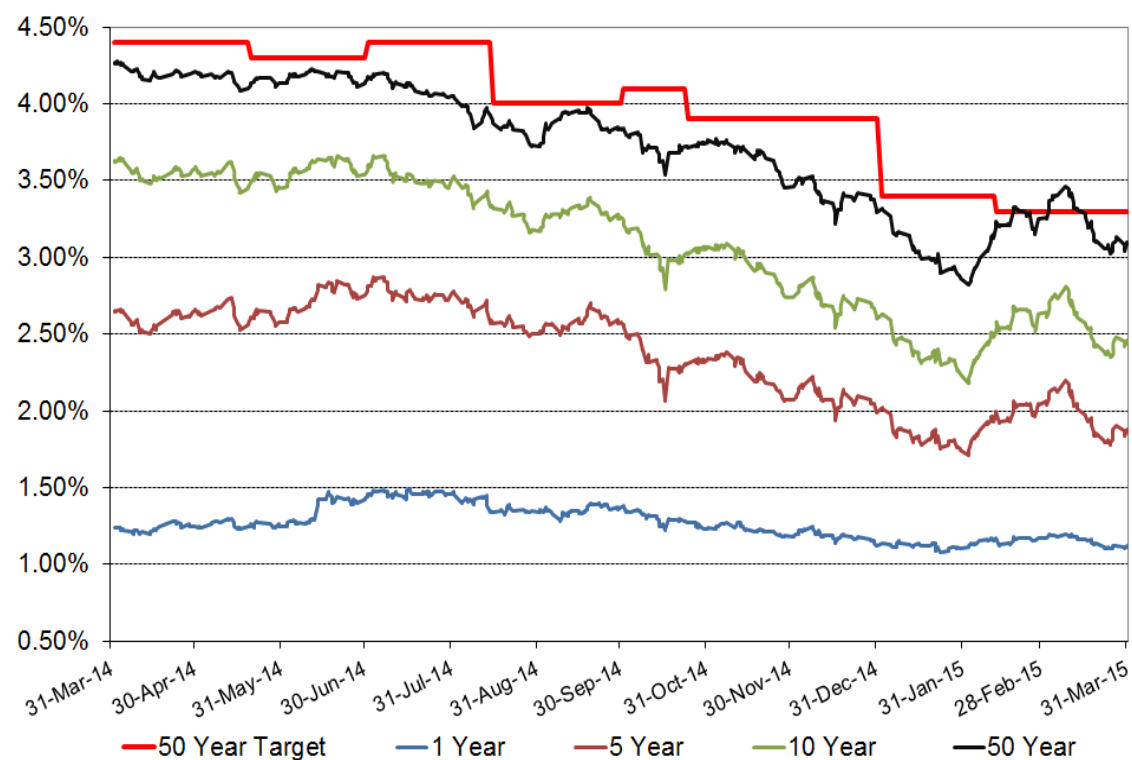
5. The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The General Fund CFR outturn saw a reduction against forecast of £2m. This comprises a reduction of £3M of General Fund capital spend off-set by a £2m reduction in capital receipts and revenue contributions and a £1m reduction in the estimated long term liability payment. The HRA CFR has increased by £4M and is attributable to a £5m reduction in HRA capital grants off-set by a reduction in HRA capital spend of £1m. The total CFR has risen year on year by £9M against the forecast of £6M.

	31 March 2014 Actual	31 March 2015 Budget	31 March 2015 Actual
CFR General Fund (£m)	267	268	266
CFR HRA (£m)	140	145	149
Total CFR	407	413	416

6. Borrowing Rates in 2014/15

PWLB borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



7. Borrowing Outturn for 2014/15

PWLB Borrowing – the following new PWLB loans were taken during the year: -

Date of borrowing	Principal	Maturity	Interest rate
26 September 2014	£5m	50 Years	3.82%
8 October 2014	£5m	46 years	3.70%
8 October 2014	£5m	47 years	3.70%
16 December 2014	£10m	49 years	3.35%
10 March 2015	£7.5m	19 years	3.28%
10 March 2015	£7.5m	20 years	3.32%
Total	£40m		

PWLB Repayment – the following PWLB fixed interest rate loans matured and were repaid:

Date of borrowing	Principal	Maturity	Interest rate
1 April 1986	£0.7m	29 years	9.125%
30 April 2009	£5m	5 years	2.84%
Total	£5.7m		

Temporary borrowing – the following temporary loans were taken from other local authorities during 2013/14 and repaid in 2014/15

Date of borrowing	Lender	Principal	Interest rate	Date repaid
9 Oct 2013	Leicestershire CC	£2m	0.47%	9 April 2014
15 Oct 2013	Derbyshire CC	£5m	0.47%	15 April 2014
16 Dec 2013	Kensington & Chelsea	£5m	0.47%	30 April 2014
20 Dec 2013	Devon & Cornwall Police	£3m	0.48%	30 April 2014
22 Jan 2014	Hackney	£3m	0.45%	22 April 2014
5 Feb 2014	Merseyside ITA	£5m	0.45%	5 August 2014
24 Feb 2014	Redcar & Cleveland	£1m	0.42%	24 June 2014
28 Feb 2014	Kensington & Chelsea	£5m	0.41%	30 June 2014
10 March 2014	Derbyshire CC	£5m	0.45%	10 Sept 2014
31 March 2014	Hertfordshire Police	£5m	0.45%	30 Sept 2014
	Total	£39m		

The following loans taken out in 2014/15 and were repaid

Date of borrowing	Lender	Principal	Interest rate	Date repaid
17 April 2014	Leicestershire CC	£10m	0.4%	17 Oct 2014
29 April 2014	Derbyshire CC	£5m	0.4%	24 Oct 2014
24 Sept 2014	Leicestershire CC	£10	0.5%	19 Dec 2014
4 Dec 2014	C&C of Swansea	£3m	0.5%	19 Dec 2014
17 Dec 2014	Middlesbrough	£4m	0.42%	7 Jan 2015
19 Dec 2014	Leicester CC	£2m	0.5%	7 Jan 2015
26 Jan 2015	Worcestershire CC	£1m	0.3%	28 Jan 2015
10 Sept 2014	Derbyshire CC	£5m	0.5%	10 March 2015
	Total	£40m		

The following was taken out in 2014/15 and is due to be repaid in 2015/16

Date of borrowing	Lender	Principal	Interest rate	Date repaid
30 Sept 2014	Northamptonshire	£3m	0.7%	30 Sept 2015

Due to lower than estimated levels of long term borrowing the actual financing costs for both HRA and General fund were lower than budgeted. As can be seen above a significant amount of the required funding was done through temporary borrowing, thereby funding at rates lower than budgeted rates. This is then reflected in the incremental impact of capital investment decisions represented by the notional increase in council tax per annum and the notional increase in average housing rents per week (Appendix 1)

Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

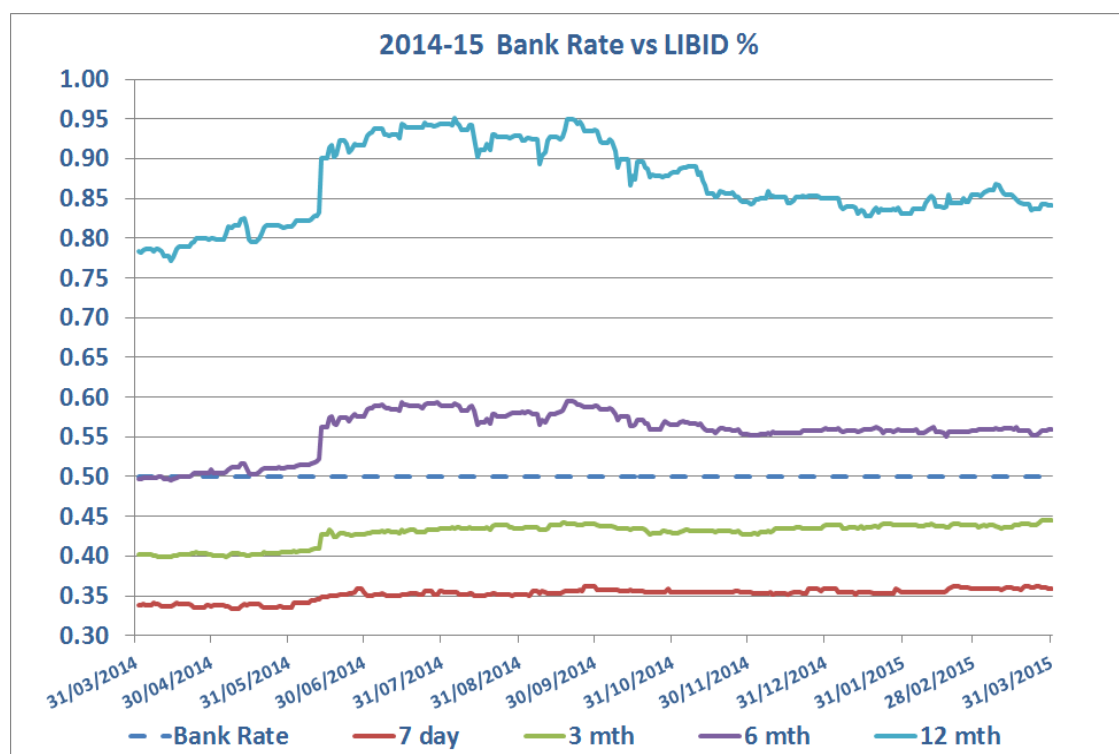
Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. The Council's Treasury and Prudential indicators (affordability limits) are included in the approved Treasury Management Strategy statement.

During the year the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators are shown in appendix 1.

8. Investment Rates in 2014/15

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



9. Investment Outturn for 2014/15

Investment Policy – the Council’s investment policy is governed by Scottish Government investment regulations, which have been implemented in the annual investment strategy approved by the Council on 25/02/2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - the Council had minimal investment balances during the year as it sought to minimise its debt costs i.e. the Council temporarily used its reserves instead of external borrowing during 2014/15. It did, however, have the following loans to third parties which fall within the scope of the Council’s approved Investment strategy:

Loan	Balance at 31/3/15
East Lothian Housing Association	£6.364m
East Lothian Investments	£0.048m
Haddington Golf Club	£0.005m

Investments held by fund managers – the Council uses Investec external fund managers to invest cash balances held on behalf of the 4 Common Good funds and ELC Charitable Trusts. The performance of the fund against the benchmark return was:

Fund	Value of Investments Held @ 31/03/14	Value of Investments Held @ 31/03/15	Return	Benchmark
Common Good funds	£2.827m	£3.053m	11.6%	11.2%
Charitable Trusts	£2.767m	£2.985m	11.6%	12.6%
Total	£5.954m	£6.038m		

The return on the charitable trusts investment was 11.6% which was 1% less than the Benchmark figure. The reason for this is that other Charities within the benchmarking group invested more in the US market during the 2014/15 financial year achieving a greater return. The other reason for the difference in our return from the Benchmark is that we continue to invest in short-dated bonds rather than long-dated and although long-dated bonds have performed better to date it is anticipated that the performance of long dated bonds will be poor going forward and we will benefit in the longer term.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2013/14	2014/15	2014/15
	actual	original	actual
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	£24,825	£21,510	£18,391
HRA	£20,805	£22,184	£20,798
TOTAL	£45,630	£43,694	£39,189
Ratio of financing costs to net revenue stream			
Non - HRA	8.34%	8.58%	8.19%
HRA	26.98%	34.14%	30.63%
Gross borrowing requirement General Fund			
brought forward 1 April	£268,328	£267,161	£267,161
carried forward 31 March	£267,161	£268,642	£266,481
in year borrowing requirement	£1,167	(£1,481)	(£680)
Gross borrowing requirement HRA			
brought forward 1 April	£123,597	£140,378	£140,378
carried forward 31 March	£140,378	£145,358	£148,804
in year borrowing requirement	£16,781	£4,980	£8,426
Gross debt	£407,539	£414,000	£415,825
CFR			
Non – HRA	£267,161	£268,642	£266,481
HRA	£140,378	£145,358	£148,804
TOTAL	£407,539	£414,000	£415,825
Annual change in Cap. Financing Requirement			
Non – HRA	£1,167	(£1,481)	(£680)
HRA	£16,781	£4,980	£8,426
TOTAL	£18,111	£4,892	£7,569
Incremental impact of capital investment decisions	£ p	£ p	£ p
Notional increase in council tax (band D) per annum	£25.33	£18.64	£3.14
Notional increase in average housing rent per week	£0.91	£4.61	£2.61

2. TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2014/15
	actual	original	actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£ 427,000	£433,000	£433,000
other long term liabilities	£ 57,000	£55,000	£55,000
TOTAL	£ 484,000	£488,000	£488,000
Operational Boundary for external debt -			
borrowing	£ 397,003	£403,259	£403,259
other long term liabilities	£ 47,406	£44,763	£44,763
TOTAL	£ 444,409	£448,022	£488,022
Actual external debt	£ 384,049	£370,121	£378,425
Upper limit for fixed interest rate exposure			
Net interest re fixed rate borrowing / investments	100%	100 %	100 %
Upper limit for variable rate exposure			
Net interest re variable rate borrowing / investments	30%	30 %	30 %
Upper limit for total principal sums invested for over 364 days	£30m	£30m	£30m

Maturity structure of fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	75%	0%

Appendix 2: Graphs

