Internal Audit Report

Treasury Management

Issued to:

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External Audit

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EXECUTIVE SUMMARY

Treasury management is described by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

As at 13 December 2016, the Council's total external debt including overdraft was £923.1 million at an average interest rate of 2.61% with temporary investments of £401.4 million at an average interest rate of 0.35%.

In October 2016, the Council was assigned a credit rating, and subsequently completed a £370 million bond issue on the London Stock Exchange in November 2016.

The objective of this audit was to consider whether the Council's Treasury Management Policy complies with the CIPFA Code of Practice and if the Policy is complied with.

In general, the Treasury Management controls were found to be robust, well managed and adhered to. Areas identified for improvement included treasury management performance reporting and operational procedures.

1. INTRODUCTION

1.1 Treasury management is described by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

1.2 In practice, this means actively monitoring and managing banking transactions to ensure that cash is available to pay for debts as they fall due, while minimising borrowing costs as a result of debt and ensuring an acceptable balance is struck between security, liquidity and return, for any investments held.

1.3 The Finance Treasury Management team, consists of a Treasury Officer and Senior Finance Officer. Decisions made by the team are informed by advice and information provided by Capita Assets Services, the Council's treasury management advisors.

1.4 As at 13 December 2016, the Council's total external debt including overdraft was £923.1 million at an average interest rate of 2.61% (£561.4 million at 4.23% as at 1 April 2016), with temporary investments of £401.4 million at an average interest rate of 0.35% (£41.4 million at 0.65% as at 1 April 2016).

1.5 In October 2016, the Council was assigned a credit rating, and subsequently completed a £370 million bond issue on the London Stock Exchange in November 2016. This increased the level of debt and investments held by the Council, explaining the movement since the start of the financial year shown in paragraph 1.4, above.

1.6 The Council has adopted CIPFA's Code of Practice for Treasury Management in the Public Services, which provides a basis to create clear treasury management objectives and to structure sound treasury management policies and practices.

1.7 The objective of this audit was to consider whether the Council's Treasury Management Policy complies with the CIPFA Code of Practice and if the Policy is complied with.

1.8 The factual accuracy of this report and action to be taken with regard to recommendations made has been agreed with Steven Whyte, Head of Finance and Sandra Buthlay, Senior Accountant.

2. FINDINGS AND RECOMMENDATIONS

2.1 Treasury Management Policy and Strategy

2.1.1 CIPFA's Code of Practice for Treasury Management in the Public Services (the TM Code) derives its legal status from the Local Government in Scotland Act 2003. The TM Code recommends that all public service organisations create and maintain, a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities. A recommended policy statement is included within the TM Code, which also states that the policy statement should include the organisation's high level policies for borrowing and investments.

2.1.2 The Council's Treasury Management Policy and Strategy for 2016/17 to 2018/19 was approved by the Finance, Policy and Resources Committee in February 2016, and Full Council in March 2016. This report included a number of key documents as required by the TM Code. The Treasury Management Policy Statement defines the policies and objectives of the Council's treasury management activities, following the form of words recommended by CIPFA. The Borrowing Strategy sets out the prioritised borrowing methods the Council could use, as well as setting limits on certain types of borrowing and the debt maturity structure. The Investment Strategy notes the Council's investment priorities as the security of capital and liquidity of its investments, and sets a limit on longer-term, fixed rate investments. The Counterparty List details the approved banks and other financial institutions with which the Council can undertake short-term investments. Proposed Prudential Indicators, as recommended in CIPFA's Prudential Code, were provided with this report and later approved at the Council's budget meeting in February 2016. Revisions to the Investment Strategy, Counterparty List, and Prudential Indicators were subsequently approved in August 2016 in advance of the Bond Issue.

2.1.3 The TM Code recommends that Full Council receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close. These reports are presented to the Finance, Policy and Resources Committee, who then recommend Full Council approve, or note, the report. The reporting undertaken for 2015/16 and 2016/17 Treasury Management activities was reviewed.

2.1.4 The 2015/16 strategy was approved by the Finance, Policy and Resources Committee in February 2015, but this did not go to Full Council. The Finance, Policy and Resources Committee and Full Council received a mid-year review and a year-end update in December 2015 and June 2016, as required. Changes to the Counterparty List were also approved by the Finance, Policy and Resources Committee in September 2015, and Full Council in October 2015.

2.1.5 As highlighted above, the 2016/17 strategy was approved by the Finance, Policy and Resources Committee in February 2016, and Full Council in March 2016. Due to the bond issue, the mid-year review was not reported in December 2016 and has been delayed until March 2017 when it will be reported to both the Finance, Policy and Resources Committee, and Full Council, along with the 2017/18 strategy.

2.1.6 Audit Scotland, on behalf of the Accounts Commission, undertook an audit on *"Borrowing and Treasury Management in Councils"* which was published in March 2015. In order to assess how Scottish councils show best value in borrowing and treasury management decisions, Audit Scotland reviewed the strategies of twelve councils and undertook detailed fieldwork at six of these. The Council was not one of the councils reviewed or visited. The report made seven recommendations for action by council officers and councillors involved in treasury management.

2.1.7 In December 2015, a report was presented to the Finance, Policy and Resources Committee comprising an overview of the Audit Scotland report as well as comments and actions from the Council's perspective. An update on progress made against these actions was reported to Finance, Policy and Resources Committee in February 2016, and Full Council in March 2016.

2.1.8 One of the recommendations of the Audit Scotland report relates to more detailed and longer-term borrowing and treasury management analysis as informed by the Council's financial strategy. The Council has increased the reporting of prudential indicators from 3 years to 5 years, in order to support this longer-term view.

2.1.9 The Audit Scotland report also recommends that the content of the year-end report should be reviewed to ensure it provides an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include indicators, comparative figures, and appropriate explanations. The last year-end report reported to the Finance, Policy and Resources Committee provided an assessment of the treasury management activities and performance but did not include the actual outturn of prudential indicators as compared to the budget indicators approved by Council. This would be useful additional information for assessing the performance of the treasury function.

Recommendation
Consideration should be given to including prudential indicator budget and actual figures in the year-end report to Committee on treasury management activities.

Service Response / Action
Agreed. A review of what and how the prudential indicators are reported will be undertaken.

Implementation Date	Responsible Officer	Grading
June 2017	Treasury Officer	Important within audited area

2.2 Written Procedures

2.2.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.2.2 The Council's Treasury Management Manual includes extracts from the TM Code and the Prudential Code for Capital Finance in Local Authorities, and details the responsibilities of those within the Treasury Management function. The manual was last updated in November 2016, to include the revised Counterparty List.

2.2.3 Within the TM Code, CIPFA recommends that Councils create and maintain Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve their treasury management policies and objectives, and how it will manage and control its treasury management activities. The TM Code includes twelve TMPs and recommends Councils include those that are relevant to its treasury management powers and the scope of its treasury management activities. CIPFA expects that the form of words given within the TM Code will be suitably amended to reflect each organisation's particular circumstances. The twelve TMPs are:

- TMP1 Risk Management
- TMP2 Performance Measurement

- TMP3 Decision-making and analysis
- TMP4 Approved instruments, methods and analysis
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualifications
- TMP11 Use of external service providers
- TMP12 Corporate Governance

2.2.4 The Council have included all twelve TMPs at the start of their Treasury Management Manual, exactly as written within the TM Code, with no Council-specific amendments. The manual also includes CIPFA's recommended Treasury Management Policy Statement, as opposed to the Council's approved Treasury Management Policy Statement, which includes a further paragraph explaining the services undertaken by Capita Asset Services, the Council's appointed Treasury Advisors. By including the Council specific Policy Statement and TMPs, this ensures the reader is clear on how the TM Code impacts the Council, and what is expected.

2.2.5 Whilst the manual has been updated on a regular basis to reflect changes to the Counterparty List, other sections of the manual have not been updated in some time, with procedural changes not reflected. Identified discrepancies include:

- The Authorised Signatories List within the Manual was last updated in February 2014, and features an employee who has since left the Council.
- The Council's bank account overdraft limit is quoted as £5 million, however this has since been reduced to £1.5 million.
- The City Chamberlain is referred to throughout the manual despite the post title now being Head of Finance.
- The Resources Management Committee, which was decommissioned in June 2009 and replaced by the Finance, Policy and Resources, is referred to.
- The manual is a large document with a number of sections, including a section on negotiable bonds "for historical purposes only" which may make it difficult for new employees to identify the key procedures. This information could be saved elsewhere in case it could be used as guide required in future.

2.2.6 The Service advised that the Treasury Management Manual is not regularly referred to, either by those carrying out daily Treasury Management responsibilities, or for training new employees. The Treasury Officer holds a separate procedural document which more accurately reflects current practice, as well as holding an updated Authorised Signatory List which was last updated in June 2016. It is noted that the staff within the Treasury Management section have a wealth of experience that enables them to undertake the required activities, however, including the most up-to-date information within one set of procedures will ensure business as usual in the event of staff absence or leaving.

Recommendation
The Service should regularly review and update the Treasury Management Manual.

Service Response / Action
Agreed. A formal review and update will be undertaken annually. Any changes required between formal updates will be recorded at the front of the manual to ensure current practice is highlighted.

Implementation Date	Responsible Officer	Grading
September 2017	Treasury Officer	Important within audited area

2.3 Cash Flow Management

2.3.1 The Logotech Public Sector Treasury Management system is used to administer and manage the Council's external debt on a daily basis. Non-debt transactions are also entered into the system as they are known or on an estimated basis until the actual is known. This information will provide a guide to the Council's cash flow position and can be used at any time to forecast the cash requirements.

2.3.2 Each morning, the Treasury Officer checks the Council's bank account balances online and ensures there are no material differences to that on Logotech. Known receipts and payments are added to and deducted from the group cleared balance in order to determine the daily borrowing requirement. The Treasury Officer will then borrow or invest money to achieve a closing balance as close to zero as possible.

2.3.3 There are no specific guidelines regarding acceptable upper and lower limits for the closing bank balance each day, however credit balances expose the Council to the opportunity cost of having funds in a bank account which attracts no interest, and overdrawn balances expose the Council to unnecessary overdraft interest. The Treasury Management Manual states that a debit balance of between £100,000 and £200,000 is the target to leave on the bank overdraft to cover cash bankings being made that day which have not yet been notified to the Treasury Section.

2.3.4 A "Daily Interest Rates and Bank Balances Sheet" is used for recording bank account balances (forecast and cleared), and calculating the daily borrowing requirement for each day. Internal Audit reviewed daily sheets for thirty days between December 2015 and November 2016, checked the anticipated cleared balance to the actual cleared bank balances. After each days' treasury management activities, anticipated bank balances were between £104,000 in debit and £207,000 in debit, and the cleared closing balances were all in credit, between £26,000 and £796,000. Five were over £500,000 in credit.

2.3.5 Overdraft interest is currently charged at 1.25%. This varies at 1% above the Council banker's base rate, currently set at 0.25%. The Service advised that the Council was only charged £11 in overdraft charges for 2015/16, reflecting the Treasury Management team's success in maintaining a credit balance within the bank account. The difficulty in achieving a closing balance close to zero is acknowledged, especially given the developments in faster payments and online banking, however consideration should be given to the agreed anticipated balance target, to minimise the opportunity cost of a higher than expected credit balance in a non-interest-bearing account.

Recommendation
The Service should consider amending their target anticipated cleared balance.

Service Response / Action
Agreed. Having considered this, a small increase to the target debit balance range, to £150,000 to £250,000 has been implemented in practice and will be incorporated into the manual as per 2.2.6. In the context that overdraft interest is charged at five times the rate at which interest is earned it is logical to mitigate against overdraft interest charges rather than chase minimal interest returns.

Implementation Date	Responsible Officer	Grading
September 2017	Treasury Officer	Important within audited area

2.3.6 The Daily Interest Rates and Bank Balances Sheet, External Temporary Loans detail, and External Temporary Investments list are printed from a master Excel spreadsheet and updated in manuscript throughout the day by the Treasury Officer. The loans and investment balances and rates are updated within the spreadsheet, ready for printing for the following day. Manual calculation is therefore required when updating each days' Daily Interest Rates and Bank Balances spreadsheet in order to calculate the daily borrowing requirement and anticipated cleared balance. By updating the Daily Interest Rate and Bank Balances spreadsheet electronically using Excel, entries can be more clearly identified and formulae can be used to facilitate calculation. However, no arithmetic errors were identified in the 30 daily sheets selected, indicating the current method is fit for purpose.

2.3.7 For each of the days reviewed, the Daily Interest Rates and Bank Balances Sheets had been signed by three employees: "prepared by" the Treasury Officer, who conducted the treasury management activities for the day; "checked by" the Senior Finance Officer, who checked the arithmetic and the decisions made; and "reviewed by" the Head of Finance, or the Accounting Manager (Corporate and Development). During busy periods leading up to the Bond Issue, the Senior Finance Officer undertook the main treasury management activities, and the Treasury Officer checked them.

2.4 Borrowing

2.4.1 There are a number of borrowing options available to local authorities including temporary borrowing, less than one year, and longer term, up to 50 years. The Council's Borrowing Strategy for 2016/17 to 2018/19 states the Council's intentions to limit its fixed and variable interest rate exposures to 100% and 30% of its net outstanding principal sums respectively, while also setting upper and lower limits for the maturity structure of borrowing.

2.4.2 The Public Works Loan Board (PWLB) is a statutory body operating within the UK Debt Management Office (DMO), an Executive Agency of HM Treasury. Local authorities are able to borrow from the PWLB, for periods up to 50 years, at lower rates than from commercial banks. Capita Asset Services, the Council's treasury advisors, monitor PWLB rates on behalf of the Council, and provide advice on when to take out longer term PWLB loans. As at 13 December 2016, the Council had £402.8 million principal outstanding at an average rate of 4.79%.

2.4.3 Each financial year, local authorities' PWLB borrowing is published on the DMO website. As at 31 March 2016, the Council had 46 PWLB loans totalling £393.6 million. This figure corresponds with the total PWLB borrowing held in the Council's Logotech system.

2.4.4 Longer-term LOBO (Lender's Option, Borrower's Option) loans are another form of long-term borrowing which councils can utilise. This type of borrowing includes two linked options; the lender's option to request a change in interest rate, and the borrower's option to either accept the revised rate, or repay the loan in full. These types of loans are often favoured at times when the PWLB rates are higher, with banks offering competitive interest rates for initial periods, with stepped increases in the rate over time.

2.4.5 As at 13 December 2016, the Council had £93.9 million in LOBOs, with an average rate of 4.59%. This represents nine separate LOBOs from £3 million to £15 million, with the most recent being entered into in January 2008. These were taken out at a time when market conditions were favourable, resulting in LOBOs being offered at lower rates than the PWLB were offering. The interest rate has increased from the initial rate for each of the Council's remaining LOBOs.

2.4.6 The Council's recent bond issue of £370 million is another form of long-term borrowing, to be repaid in 35 years. The bond is discussed in more detail in the final section of this report.

2.4.7 Local authorities are also able to take out temporary loans from other UK authorities for periods of less than a year. Brokers contact the Council each morning to ascertain its short-term borrowing needs and to quote the rates they're able to offer. The Treasury Officer prepares a deal ticket detailing the counterparty, principal borrowed, interest rate and duration. This is then authorised by an authorised signatory.

2.4.8 As at 13 December 2016, the Council had £8 million in temporary loans from two UK local authorities. Both temporary loans had been authorised by the Head of Finance, and the rates were confirmed to the Brokers' confirmations.

2.4.9 The Loans Fund is used by various Trusts as a means of investing their excess funds. A "call" temporary loan is opened for each of the Trusts and the sum is taken into the Loans Fund. This provides the trusts with a higher rate of interest than they could expect in the market for such amounts, whilst still offering them "instant access" to the funds. These funds are classed as Temporary Loans for the Council. As at 13 December 2016, the Council held £48.3 million in the Loans Fund for fifteen Trusts, currently paying a rate of 0.25%, as per the Bank of England base rate.

2.5 Investment

2.5.1 The Council's Investment Strategy for 2016/17 to 2018/19 notes that the Council's investment priorities are the security of capital and the liquidity of its investments. It states that to ensure good availability of liquidity for cash flow purposes, no more than 50% of available investments should be placed in longer-term, fixed rate investments. The remainder will be kept in highly liquid investments and invested on a short-term basis, using either Bank deposits or highly rated Money Market Funds. To assist in keeping within these limits, the Temporary Investments sheet has been updated to calculate the liquidity percentage of investments on a daily basis. As at 13 December 2016, the Council's temporary investments totalled £401.4 million, 71.8% of which were held in liquid deposits.

2.5.2 Reflecting the low risk appetite of the Council, the Counterparty list is compiled using credit rating information supplied by the major credit rating agencies to Capita Asset Services, the Council's appointed Treasury Management advisors. Last updated in August 2016 in preparation for the bond proceeds, the Counterparty List is made up of both UK and international banks, Money Market Funds, and other UK local authorities, including police authorities. The number of Counterparties and the Counterparty investment limits increased in August 2016 when compared to those approved by Council in February 2016 to accommodate the additional funds held following the issue of the bond.

2.5.3 The Temporary Investments sheets were reviewed for five days since April 2016 and it was confirmed that temporary investments were only held with institutions listed on the Counterparty List, and balances did not exceed any of the limits.

2.5.4 Investments under £10 million are transferred via Faster Payment using the Council's online banking account, where one member of staff inputs the payment, and another authorises it. The bank account details are stored within the online banking system for payments made regularly. For investments of £10 million and above, a CHAPs request form, signed by an authorised signatory, must be sent to the bank to complete the transfer on the Council's behalf.

2.5.5 As a result of the bond issue, £378 million was transferred into temporary investments on 8 November 2016. This was made up of seven £50 million deposits to Money Market Funds (MMFs) and one £20 million deposit to a fixed rate account, all paid via CHAPs, and an £8 million deposit to a fixed rate account transferred via Faster Payment. Each of the CHAPs request forms had been signed by the Head of Finance. The recipient's bank account details were verified for each of the payments, to the MMF Investor Pack, or Broker confirmation.

2.5.6 While an Investment Strategy including counterparty list was approved by Council in March 2016, and subsequently revised and approved in August 2016, it was noted that procedures lack guidance on the order in which to invest funds with counterparties, to ensure funds remain secure and liquid as required by the Investment Strategy. The Service has agreed to include guidance on the factors to consider when deciding on appropriate investments when reviewing the Treasury Management Manual, as recommended in paragraph 2.2.6.

2.6 Prudential Indicators

2.6.1 Scottish local authorities are required to have regard to CIPFA's Prudential Code under Part 7 of the Local Government in Scotland Act 2003. The key objectives of the Prudential Code are to ensure that the Council's capital programmes are affordable, prudent, and sustainable; and that treasury management decisions are taken in accordance with good professional practice. Local authorities are required to set prudential indicators, having regard to:

- service objectives, eg. strategic planning for the authority;
- stewardship of assets, eg. asset management planning;
- value for money, eg. option appraisal;
- prudence and sustainability, eg. implications of external debt and whole life costing;
- affordability, eg. implications for council tax; and
- practicality, eg. achievability of the forward plan.

2.6.2 The Prudential Code states that the prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. In response to recommendations made by Audit Scotland in their *"Borrowing and Treasury Management in Councils"* report, the Council now include their prudential indicators in the annual Treasury Management Policy and Strategy report, as well as in the budget setting report that is presented to Full Council.

2.6.3 Prudential Indicators are reported showing the prior year actual results, as well as estimated figures for the next five years. This supports the longer-term view that the Council is taking.

2.6.4 The Council has set indicators indicating: the affordability of the authority's capital plans; showing external debt is kept within sustainable prudent limits; as well as indicators detailing planned capital expenditure, and limits for external debt.

2.6.5 Within the Council's daily treasury management sheets, each of the prudential indicators are calculated to ensure the limits are not breached throughout the year. This is recognised as good practice.

2.6.6 The Prudential Code states that, in order to ensure that over the medium term net debt will only be for a capital purpose, the authority should ensure that net debt 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 financing requirement for the current and next

two financial years. A statement from the Head of Finance was included to confirm this was the case. While the actual capital financing requirement was provided for the two preceding financial years, and the following 5 financial years, net borrowing was not included as a comparative figure. This would be useful to confirm that net borrowing does not exceed the capital financing requirement in any given year, thereby demonstrating that external debt is kept within sustainable prudent limits.

Recommendation
Consideration should be given to including a prudential indicator for net borrowing for all years the capital financing requirement is reported.

Service Response / Action
Agreed. A review of what and how the prudential indicators are reported will be undertaken.

Implementation Date	Responsible Officer	Grading
June 2017	Treasury Officer	Important within audited area

2.7 Capita Asset Services

2.7.1 Within Treasury Management Practice 11: Use of External Service Providers, CIPFA recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources, but the responsibility for treasury management decisions remains with the Council.

2.7.2 An invitation to quote was issued by the Council in March 2016 using the Public Contracts Scotland Quick Quotes service and Capita Asset Services was selected to continue as the Council's treasury advisors after a successful quotation. The value of the contract was accepted as £50,100 over the next three years.

2.7.3 In accordance with Standing Order 6 Relating to Contracts and Procurement, which was in place at the time the quotes were obtained, prior written approval is required from the Head of Legal and Democratic Services if the contract duration exceeds 1 year. Whilst e-mail correspondence from C&PS held by the Treasury Officer indicated Legal Services had provided approval, written approval from the Head of Legal and Democratic Services was unavailable. However, the current Procurement Regulations no longer require approval from the Head of Legal and Democratic Services in these circumstances since authority to incur expenditure is based on contract value rather than contract duration.

2.8 Credit Rating and Bond Issue

2.8.1 The Council had a requirement to raise £573 million of finance to support its Capital Programmes, including the construction of a new Aberdeen Exhibition and Conference Centre (AECC). Upon receiving the recommended financing package suggested by the AECC developer, the Council requested KPMG, their investment advisors, undertake a financing options analysis. KPMG identified alternative financing options and presented an index-linked bond as a suitable option. Bonds are a type of debt security that can be traded in the capital markets. The issuer (ie. the Council) borrows money by selling bonds to bondholders; the issuer receives the money and the bondholder receives a promise from the issuer to repay the debt at a later debt, usually with interest.

2.8.2 In August 2016, Full Council received a detailed report on financing options and agreed that officers should progress with obtaining a credit rating as a first step towards securing funding towards the Capital Programme by issuing bonds of up to £350 million. This report was deemed confidential in light of the London Stock Exchange regulations.

2.8.3 In October 2016, the Council were assigned a credit rating when Moody's Investors Service confirmed an Aa2 rating, just one level below that of the UK's sovereign rating.

2.8.4 On 1 November 2016, the Council's bond issue was launched on the London Stock Exchange. When it became apparent that the offers received would exceed the approved limit of £350 million, the Head of Finance attended an Urgent Business Committee and sought approval for a higher level of authorisation. The Committee resolved to approve the Head of Finance to issue up to £400 million in nominal value of bonds. Subsequently, the Council issued a total of £370 million of index-linked bonds. Bond proceeds of £415 million were received as bonds were issued 'above-par' meaning they were sold at a premium.

2.8.5 As a result of the bond issue, the Council is now required to comply with a number of regulations which were reported to Full Council in December 2016. This report included an appendix provided by the Council's legal advisors, Brodies LLP, who had been involved throughout the process, which detailed the Council's continuing obligations following the bond issue. These include compliance with the Market Abuse Regulation, the Disclosure and Transparency Rules, the Listing Rules and London Stock Exchange Admission and Disclosure Standards.

2.8.6 A review of governance arrangements to ensure compliance with the above has been instigated and will form part of the Council's wider Governance Review programme. This will include training of officers and elected members, reviewing governance documents that are affected by the bond issue and drawing up a list of all persons who have access to inside information (an "insider list") as required under Market Abuse Regulations.

2.8.7 The bond Heads of Terms details a list of triggers for optional early repayment for bondholders. These include a 'Change of Status' resulting in the Council no longer being able to levy or receive council tax and non-domestic rates; the ability to receive Scottish Government grant funding and the ability to raise funding from the Public Works Loan Board. In addition, a Rating Downgrade will also result in optional early repayment for Bondholders.

2.8.8 The report to Council in August 2016 prior to the issue of the Bond highlighted the importance of maintaining a suitable credit rating and the need for the appointed credit rating agency to conduct reviews at least once every twelve months to revise the credit rating.

AUDITORS: D Hughes
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Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.