Webcast Meeting

Epping Forest District Council

# *AUDIT AND GOVERNANCE COMMITTEE*
## *Monday, 1st February, 2016*

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

**Council Chamber, Civic Offices, High Street, Epping**
on **Monday, 1st February, 2016**
at **7.00 pm** .

**Glen Chipp**
**Chief Executive**

| | |
|---|---|
| **Democratic Services Officer** | Gary Woodhall<br>The Directorate of Governance<br>Tel: 01992 564470<br>Email: democraticservices@eppingforestdc.gov.uk |

**Members**:

Councillors: J Knapman (Chairman), L Hughes, and S Weston

Independent: A Jarvis (Vice-Chairman) and N Nanayakkara

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**WEBCASTING/FILMING NOTICE**

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**If you have any queries regarding this, please contact the Senior Democratic Services Officer on 01992 564249.**

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**1. WEBCASTING INTRODUCTION**

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

**2. APOLOGIES FOR ABSENCE**

(Director of Governance) To be announced at the meeting.

**3. DECLARATIONS OF INTEREST**

(Director of Governance) To declare interests in any item on this agenda.

**4. MINUTES (Pages 5 - 12)**

To confirm the minutes of the last meeting of the Committee held on 30 November 2015 (attached).

**5. MATTERS ARISING**

(Director of Governance) To consider any matters arising from the previous meeting.

**6. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16 (Pages 13 - 14)**

(Director of Governance) To consider the attached Work Programme for 2015/16.

**7. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2016/17 - 2018/19 (Pages 15 - 48)**

(Director of Resources) To consider the attached report (AGC-015-2015/16).

**8. INTERNAL AUDIT MONITORING REPORT - DECEMBER 2015 AND JANUARY 2016 (Pages 49 - 60)**

(Chief Internal Auditor) To consider the attached report (AGC-016-2015/16).

**9. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

## 10. EXCLUSION OF PUBLIC AND PRESS

Exclusion:
To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

| Agenda Item No | Subject | Exempt Information Paragraph Number |
|---|---|---|
| Nil | Nil | Nil |

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:
Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:
Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

# EPPING FOREST DISTRICT COUNCIL
# COMMITTEE MINUTES

| | | | |
|---|---|---|---|
| **Committee:** | Audit and Governance Committee | **Date:** | Monday, 30 November 2015 |
| **Place:** | Council Chamber, Civic Offices, High Street, Epping | **Time:** | 7.00 - 8.05 pm |

**Members Present:** J Knapman (Chairman), A Jarvis (Vice-Chairman), L Hughes, N Nanayakkara and S Weston

**Other Councillors:** C Whitbread

**Apologies:** -

**Officers Present:** C O'Boyle (Director of Governance), R Palmer (Director of Resources), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), G J Woodhall (Senior Democratic Services Officer) and J Leither (Webcasting Officer)

**Also in attendance:** D Eagles (External Auditor)

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## 24. WEBCASTING INTRODUCTION

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

## 25. DECLARATIONS OF INTEREST

There were no declarations of interest pursuant to the Council's Member Code of Conduct.

## 26. MINUTES

**Resolved:**

(1) That the minutes of the meeting held on 21 September 2015 be taken as read and signed by the Chairman as a correct record.

## 27. MATTERS ARISING

There were no matters arising from the previous meeting for the Committee to consider.

## 28. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16

The Committee noted its Work Programme for 2015/16, which had included some minor updates from the previous meeting.

## 29. ANNUAL AUDIT LETTER 2014/15

The External Auditor presented the Annual Audit Letter for 2014/15.

The External Auditor stated that the Annual Audit Letter summarised the key issues arising from the audit work carried out during the year. In respect of the Financial Statements, one material misstatement was identified and corrected relating to the incorrect input of data into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6.6million with the balance on the Capital Adjustment Account understated by the same amount. There were also two unadjusted differences identified by the Audit, mainly relating to the incorrect treatment of grant income which was recognised as a credit on the Balance Sheet rather than as income in the Comprehensive Income and Expenditure Statement. These would increase the surplus on the provision of services by £1million to £14.6million, and were not considered to have a material impact on the financial statements. An unqualified true and fair opinion on the financial statements was issued on 30 September 2015 and it was confirmed that the Annual Governance Statement was neither misleading nor inconsistent with other information arising from the Audit.

Aside from the financial statements, the External Auditor reported that they were satisfied the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources; therefore, an unqualified Value for Money conclusion had been issued. The External Auditors had found no reason to exercise their statutory powers and that there were no matters to report to the Committee. The review of Grant Claims and Returns was in progress and a number of errors was highlighted to the Committee. However, the results would be reported to the Committee upon completion of this work at its next scheduled meeting. An Audit Certificate to close the Audit for the year ended 31 March 2015 was issued on 30 September 2015.

In response to questions from the Committee, the External Auditor stated that it was perfectly normal for the Housing Benefit Subsidy Claim to highlight a number of issues. It was a multi-million pound claim and issues were highlighted every year. The detailed report to be considered by the Committee at its next meeting would indicate the small scale of the issues identified by the Audit. The Committee was pleased to note that an unqualified opinion had been given by the External Auditors.

**Resolved:**

(1) That the Annual Audit Letter issued by the External Auditor for 2014/15 be noted.

## 30. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2015

The Senior Auditor presented the Internal Audit Monitoring Report for the period September to November 2015, which provided a summary of the work undertaken by the Internal Audit Service during this time.

The Senior Auditor advised the Committee that four reports had been issued since the previous meeting, of which three had been given Substantial Assurance – Member Allowances, Local Land Charges and Grounds Maintenance - and one had been given Limited Assurance. The Limited Assurance Audit had been issued for Bed & Breakfast Accommodation for Homeless Persons; the contracts in place for providing Bed and Breakfast accommodation had not been extended to cover the period to 31 March 2016, although this had subsequently been carried out. A weakness had also been identified in the systems for monitoring and collecting Bed & Breakfast arrears, which had now been addressed.

The Senior Auditor reported that the Recommendation Tracker contained two recommendations which had passed their due date. The reconciliation of the Development Control fees was in progress and resources were being concentrated on bringing these up to date. In respect of Corporate Procurement, the recruitment process for an individual within Human Resources, whose work would include existing agency worker framework agreements across the Council, had not been successful and would be repeated again in the near future.

The Senior Auditor stated that work had continued on the Audit Plan for 2015/16, and a total of ten audits had been outsourced to Mazars – an outsource provider of Internal Audit services. This was because the Internal Audit function currently had an Auditor vacancy, and all of these Audits had been scoped and timings agreed with the relevant Assistant Director. The Corporate Fraud Team had also made significant progress since the last meeting, with all Officers now settled in their new roles.

In respect of the shared Internal Audit service with Broxbourne Borough Council and Harlow District Council, the Senior Auditor informed the Committee that a second joint team meeting had been held in November 2015 where common working practices were further consolidated and initial discussions took place concerning Audit Plans for 2016/17. It was noted that the Internal Audit Plan and Strategy for 2016/17 would be considered by the Committee at its meeting scheduled for 31 March 2016. In addition, Human Resource departments at Broxbourne and Harlow had liaised with Epping Forest on possible joint training arrangements, and Epping Forest and Harlow were sharing insights from ongoing reviews of their respective customer service strategies.

In response to questions from the Committee, the Chief Internal Auditor explained that the Internal Audit Service could be provided by Internal Auditors directly employed by the Council, or by outsourced third party Internal Audit companies. In this particular instance, there had been a vacancy since April 2015, and in accordance with Contract Standing Orders three quotes were obtained before Mazars was chosen based upon their price quoted and the quality of their work in the past. Control over all aspects of outsourced audits was retained by the Chief Internal Auditor.

The Director of Governance explained that some members of the Corporate Fraud Team had transferred from the old Housing Directorate as part of the recent restructure to create a central Corporate Fraud Team. The Corporate Fraud Team routinely investigated all Right-To-Buy applications received by the Council.

The Director of Governance also mentioned that the Corporate Debt Working Group had recommended that smaller debts, those below £500 in value, should be pursued by individual Directorates rather than Legal Officers. It was found that early dialogue with Debtors was an effective tactic, and assistance for Debtors was also available including referrals to Debt Advice Agencies.

**Resolved:**

(1) That the progress being made both against the 2015/16 Internal Audit Plan and by the Corporate Fraud Team be noted.

## 31. AUDIT AND STANDARDS COMMITTEE - PROPOSED TERMS OF REFERENCE

The Chief Internal Auditor presented a report on the proposed terms of reference for the Audit and Standards Committee.

The Chief Internal Auditor advised the Committee that many local authorities had combined their Audit and Standards Committees, especially as the workload of the Standards Committee had dwindled over recent years since the introduction of the Localism Act 2011. The proposal was to combine the Standards Committee with the Audit and Governance Committee and have a combined Terms of Reference that followed good practice from the Chartered Institute of Public Finance and Accountancy (CIPFA). The Committee was reassured that there were no new functions in the proposed Terms of Reference that were not already being performed by one of the two Committees.

The Chief Internal Auditor highlighted one issue concerning oversight of Treasury Management. Currently, it was the Audit & Governance Committee which provided Member monitoring of the Council's Treasury Management function, and the Committee received three reports per year, in September, November and February. If this function was provided by the Resources Select Committee instead, then the number of meetings for the Audit & Governance/Standards Committee could be reduced from the current five to four each year.

The Chief Internal Auditor stated that if the Committee was in agreement then final approval for the merger of the Audit & Governance and Standards Committees would need to be sought from the Council following formal consultation with the Standards Committee and possibly the Resource Select Committee as well depending on the outcome of discussions regarding the oversight of Treasury Management.

The Director of Governance added that the Council needed a facility to deal with complaints if necessary, and that vehicle was the Standards Committee. The Standards Committee had more issues to deal with in the past, but the Localism Act 2011 delegated authority to the Monitoring Officer to deal with Member behaviour issues and report the outcomes to the Standards Committee. And although it still had a role in examining and commenting upon protocols and procedures, it no longer had enough business to merit being a separate Committee. There would be a standing item on each agenda of the new Committee for Standards issues, and this approach had worked well at other Councils. It was also highlighted that the Independent Members would not have voting rights on any Standards issues considered by the new Committee.

The Director of Resources reminded the Committee that the Council used Arlingclose for Treasury Management advice, and Member training events for Treasury Management were held each year. It was acknowledged that Member knowledge of Treasury Management would vary each year, and that the Independent Members of the Audit & Governance Committee had provided the on-going expertise.

The Committee welcomed the report and were in general agreement that the Committees should merge as it would be more efficient. It was felt that oversight of the Treasury Management function should remain with the new Committee. It was highlighted that Treasury Management would be reported to Audit in the private sector and it would be expected that Audit would have some oversight. In an ideal world, the Committee would have some investment experience as well.

**Resolved:**

(1) That the proposal to merge the Audit & Governance Committee with the Standards Committee be approved in principle;

(2) That, subject to them being achievable, the proposed Terms of Reference for the Audit & Standards Committee be agreed;

(3) That oversight of the Council's Treasury Management function be retained by the Audit & Standards Committee;

(4) That the views of the Standards Committee on the proposed merger be sought; and

(5) That the Constitution Working Group be requested to consider the necessary constitutional amendments and report to the Council accordingly.

## 32. INTERNAL AUDIT CHARTER 2015

The Chief Internal Auditor presented a report on the Internal Audit Charter for 2015.

The Chief Internal Auditor stated that the Public Sector Internal Audit Standards adopted throughout the UK Public Sector from 1 April 2013, required the purpose, authority and responsibility of the Internal Audit activity to be formally defined in an Internal Audit charter, which the Chief Internal Auditor had to periodically review and present to Senior Management as well as the Audit and Governance Committee for approval. The previous Internal Audit Charter was presented and approved by the Audit and Governance Committee on 25 September 2014. It was emphasised that there had been no substantial changes to the content from that presented last year, however, the format had been revised to match those in place at Broxbourne and Harlow Councils. The key principles required by the Public Sector Internal Audit Standards had remained unchanged including:

(i) the purpose, authority and responsibility of Internal Audit;

(ii) Internal Audit independence and objectivity;

(iii) the scope of Internal Audit activities;

(iv) planning and reporting; and

(v) Internal Audit resources.

**Resolved:**

(1) That the revised Internal Audit Charter 2015, attached at Appendix A of the report, be approved.

## 33. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - MID-YEAR REPORT 2015/16

The Director of Resources presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2015/16, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Director reported that, during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. The estimate for the Capital Programme during 2015/16 had indicated expenditure of £26.428million, which would be financed by capital grants, capital receipts and revenue. The Capital Programme for the three-year period ending 31 March 2018 had predicted expenditure of £72million, with £3million available in usable capital receipts and

£2million in the Major Repairs Reserve. Therefore, it was considered that adequate resources existed for the Council's Capital Programme in the medium term.

The Director advised the Committee that the Council had £53.1million under investment at 30 September 2015, and the average net investment position of the Council had been approximately £61.9million throughout the first half of 2015/16. The Council's investments as at 30 September 2015 had consisted of £45.5million in fixed investments, £2.6million in variable investments and £5million in long-term investments. The Council had also received a further dividend from the administrators of the Heritable Bank; the Council had now received 98% of the value of its deposits. No further update had been received from the Administrator. The importance of carefully monitoring and controlling the Council's cash flow to ensure enough funds were available each day to cover outgoings was highlighted; this would become more difficult as the Council used up its capital receipts and reduced its investment balances.

The Director stated that the Council held loans totalling £184.7million at 30 September 2014, the majority of which had funded the self-financing of the Housing Revenue Account. It was not anticipated that the Council would require further loans in 2015/16, but it was expected that further borrowing would occur in 2016/17 to fund capital projects such as the Epping Forest Shopping Park. The revised Capital Programme for the five-year period to 2019/20 would be considered by the Cabinet at its meeting on 3 December 2015.

Finally, the Director added that there had been no breaches of any of the prudential indicators relating to capital activity, the indebtedness for capital purposes and the Council's overall Treasury position.

In response to questions from the Members of the Committee, the Director of Resources stated that the return on the Epping Forest Shopping Park would be significantly higher than the rates currently available on the Money Market. The forecast was that the Council would receive approximately £2.5million in rent each year for an estimated build cost of £30million. Councils were generally looking to invest in property to increase their financial resilience.

The Director acknowledged that the Council's total investments had decreased a little over the period, and a longer term trends table could be provided for Members if they wished. It was clarified that the 98% return from the Council's investment with Heritable Bank included both the initial deposit and interest due. The Council had not breached any of its Prudential Indicators previously, and the 'cost of carry', i.e. the cost of borrowing in advance of need, was explained for the benefit of the Committee.

The Committee noted that, with only very low interest rates available on the money markets, the Council had embarked on a strategy of capital investment in order to obtain better returns for its money. It was accepted that the report did not indicate any real cause for concern with the management of the Council's Treasury Management function at the current time.

**Resolved:**

(1) That the mid-year progress report on Treasury Management and the prudential Indicators for 2015/16, and the management of the risks therein, be noted.

## 34. ANY OTHER BUSINESS

The Committee noted that there was no other urgent business for consideration.

## 35. EXCLUSION OF PUBLIC AND PRESS

The Committee noted that there was no business which necessitated the exclusion of the public and press from the meeting.

**CHAIRMAN**

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# Audit & Governance Committee Work Programme 2015/16 (revised September 2015)

**29 June 2015**
- ➢ Internal Audit Annual Report 2014/15.
- ➢ Review of the Effectiveness of Internal Audit.
- ➢ Audit & Governance Committee Annual Report.
- ➢ Annual Governance Statement.
- ➢ Internal Audit Progress Report.

**21 September 2015**
- ➢ Treasury Management Annual Outturn Report.
- ➢ Statutory Statement of Accounts.
- ➢ Internal Audit Progress Report.

- ❖ Annual Governance Report 2014/15.

**30 November 2015**
- ➢ Treasury Management Mid-Year Report.
- ➢ Internal Audit Progress Report.
- ➢ Review of the Internal Audit Charter
- ➢ Review of the Audit and Governance Committee Terms of Reference.
- ➢ Schedule of Meetings for 2016/17.

- ❖ Annual Audit Letter 2014/15.

**1 February 2016**
- ➢ Treasury Management Investment & Strategy Statements.
- ➢ Internal Audit Progress Report.

- ❖ Grant Claims Audit Report 2014/15.

**31 March 2016**
- ➢ Effectiveness of Risk Management.
- ➢ Internal Audit Progress Report
- ➢ Internal Audit Strategy and Audit Plan 2016/17.
- ➢ Internal Audit Compliance with the Public Sector Internal Audit Standards

- ❖ Planning Letter 2016/17.
- ❖ Audit Plan 2015/16.

**Unallocated Items**
- ➢ Review of the Audit and Governance Committee Effectiveness.
- ➢ Information Regarding the Whistle Blowing Policy.

**Key**
- ➢ EFDC Officer Report.
- ❖ External Auditor Report.

*N.B…In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 31 March 2016 meeting in the Conference Room.*

# *Report to the Audit & Governance Committee*

## *Report reference: AGC-015-2015/16*
## *Date of meeting: 1 February 2016*

Epping Forest District Council

**Portfolio:** **Finance**

**Subject:** **Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19**

**Responsible Officer:** **Simon Alford (01992 564455).**

**Democratic Services Officer:** **Gary Woodhall (01992 564470).**

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**Recommendations/Decisions Required:**

**(1) To consider how the risks associated with Treasury Management have been dealt with in the proposed Council's Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19; and**

**(2) To make any comments or suggestions that Members feel necessary to Full Council.**

**Executive Summary:**

The annual treasury management strategy statement and investment strategy report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the financial years 2016/17 to 2018/19.

The risks associated with setting these indicators are highlighted within the report along with how these risks are being managed.

**Reasons for Proposed Decision:**

To provide assurance to Full Council that the risks associated with Treasury Management are being appropriately managed.

**Other Options for Action:**

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

**Report:**

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.

2. The report attached at Appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2016/17 to 2018/19 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the Year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council does plan to borrow in order to carry out its capital programme. As mentioned in Appendix 1 it may borrow additional sums to pre or post-fund future year's requirements. The capital programme is shown below in the table:

| **Capital Expenditure** | **2015/16 Revised £m** | **2016/17 Estimate £m** | **2017/18 Estimate £m** | **2018/19 Estimate £m** |
|---|---|---|---|---|
| Non-HRA capital expenditure | 32.012 | 19.470 | 1.591 | 0.963 |
| HRA capital expenditure | 17.905 | 28.127 | 26.561 | 25.436 |
| **Total Capital expenditure** | **49.917** | **47.597** | **28.152** | **26.399** |
| **Financed by:** | | | | |
| Government Grants | 3.393 | 1.015 | 0.565 | 0.565 |
| Capital receipts | 16.373 | 8.192 | 5.048 | 4.492 |
| Revenue | 17.597 | 25.769 | 22.539 | 21.342 |
| Borrowing | 12.454 | 12.621 | 0 | 0 |
| **Total resources Applied** | **49.917** | **47.597** | **28.152** | **26.399** |
| **Closing balance on:** | | | | |
| Capital Receipts | 7.521 | 7.031 | 4.431 | 5.207 |
| Major Repairs Reserve | 9.487 | 0.997 | 0 | 0 |

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve for anticipated major repairs allowance.

6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is no longer included in the Council's Corporate Risk Register, as the impact has reduced.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a three-year period. Currently, the Capital Programme for the next three years totals £125.666m and is funded but requires borrowing of £25m. It is predictted that at the end of 2018/19 there will still be £5.207m available in usable Capital Receipts and nothing in the Major Repairs Reserve. Therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The Impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. A positive CFR would normally mean a Council would have to borrow to fund a capital programme, but this situation has only arisen as a consequence of Housing Subsidy reform. The previous table illustrates that the capital programme will require some additional borrowing. This report sets an authorised limit for borrowing of £230 million rising to £250m.

| CFR | 31-Mar-16 £m | 31-Mar-17 £m | 31-Mar-18 £m | 31-Mar-19 £m |
|---|---|---|---|---|
| Non-HRA | 43.5 | 55.0 | 63.9 | 62.2 |
| HRA | 155.1 | 155.1 | 155.1 | 155.1 |
| **Total Capital expenditure** | **198.6** | **210.1** | **219.0** | **217.3** |

9. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. However, the Council has taken on debt of around £185.5m and this would normally require the local authority to charge MRP to the General Fund. CLG has produced regulations intended to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-Financing when calculating MRP and therefore (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP. Additional borrowing if it were to take place for General Fund purposes in 2016/17 would create a MRP in 2017/18. The MRP statement is at Appendix F.

10. The Council had to borrow to fund Housing Self-Financing and so £185.456m was borrowed from PWLB on 28 March 2012. This was split into 6 separate loans, one variable rate loan of £31.8m maturing in 10 years, 4 fixed rate loans of £30m maturing between 26 and 29 years and a further fixed rate loan of £33.656m maturing in 30 years. The table below only covers the fixed rate borrowing. The upper and lower limits for next year are set to allow maximum flexibility if a re-financing opportunity arises, although this is unlikely.

| Maturity structure of fixed rate borrowing | Existing level (or Benchmark level) at 31/03/15 % | Lower Limit for 2016/17 % | Upper Limit for 2016/17 % |
|---|---|---|---|
| under 12 months | 0 | 0 | 100 |
| 12 months and within 24 months | 0 | 0 | 100 |
| 24 months and within 5 years | 0 | 0 | 100 |
| 5 years and within 10 years | 0 | 0 | 100 |
| 10 years and within 20 years | 0 | 0 | 100 |
| 20 years and within 30 years | 100 | 0 | 100 |
| 30 years and within 40 years | 0 | 0 | 100 |
| 40 years and within 50 years | 0 | 0 | 100 |
| 50 years and above | 0 | 0 | 100 |

11. The risk associated with this section relate to Refinancing – the risk that maturing borrowings, capital project or partnership refinancing cannot be refinanced on suitable terms. The borrowing portfolio is based on the Housing Revenue Account (HRA) financial plan and the borrowing maturities are linked to when the financial plan has the resources to repay the debt.

12. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensures where debt is owed it is managed, whereby the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's Treasury Position

13. The Council's investments are all denominated in UK sterling and regular information is received from our treasury advisors on the latest position on the use of Counterparties. The latest information supplied is as follows:

**(a) UK Banks and building societies:**

(i) A maximum maturity limit of between 35 days and 13 months is now applicable;

(ii) A maximum maturity limit of 13 months to Bank of Scotland, Lloyds TSB, HSBC Bank plc;

(iii) A maximum maturity limit of 6 months days applies to Santander UK, Nationwide Building Society, and Standard Chartered;

(iv) A maximum maturity limit of 100 days applies to Barclays plc;

(v) A maximum maturity limit of 35 days applies to RBS and NatWest.

**(b) European Banks:**

(i) A maximum maturity limit of 100 days applies to Credit Suisse , ING Bank;

(ii) A maximum maturity limit of 6 months applies to none;

(iii) A maximum maturity limit of 13 months applies to no Nordea, Rabobank, Nederlandse Gemeenten and Handelsbanken.

**(c) Non European Banks:**

A maximum maturity limit of 6 months applies to Australian, 13 months to Canadian and US banks that are on our Counterparty list.

**(d) Money Market Funds:**

A maximum exposure limit of £5m of our total investments per MMF.

14. The Council currently has an investment portfolio of £54.6m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

| **Country of Counterparty** | **£m** |
|---|---|
| United Kingdom | 54.6 |
| Euro Zone | 0.0 |
| Australia/Canada/USA | 0.0 |
| Ireland | 0.0 |
| Sweden | 0.0 |
| **Total** | **54.6** |

| Current Maturity profile of investments | £m |
|---|---|
| Overnight ( Call / Money Market Fund) | 13.6 |
| Up to 7 days | 0.0 |
| 7 days to 1 month | 8.0 |
| 1 month to 3 months | 17.0 |
| 3 months to 6 months | 6.0 |
| 6 months to 9 months | 0.0 |
| 9 months to 1 year | 10.0 |
| > 1 year | 0.0 |
| **Total** | **54.6** |

15. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

16. The Council is proposing to set the following indicators:

(a) the Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) for each of the years up to 2018/19;

(b) the maximum amount of the portfolio being invested for longer than 364 days is £15m; and

(c) the maximum limit set for investment exposure per country is 30%.

17. The risks associated with this section are as follows:

(a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors. It can be seen from the table above and from advice given by Arlingclose that the Council is keeping deposits fairly liquid and the number of Counterparties is restricted.

(b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Resources has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of Money Market Funds are used to ensure adequate cash remains available.

(c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council is proposing a maximum of 75% of its investments can be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.

18. The prudential indicators within this section assist the Council to reduce the risk of:

(a) counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring an adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring the investment portfolio has a balanced but relatively short maturity profile.

Housing Finance Reform

19. In setting the original HRA budget for 2012/13 it was estimated that the borrowing would all be fixed rate at 4.24% and that this would result in annual interest payments of £6.3m. The actual debt portfolio comprises £154m of fixed rate borrowing at rates between 3.45% and 3.5% and variable rate borrowing of £32m which is currently at 0.78%. The actual annual interest payments will be £5.6m which continues to represent a considerable saving.

Inter-Fund Balances

20. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

21. The Treasury Management Policy Statement is a high level statement setting out how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2015/16 Treasury Strategy. The Policy is attached at Appendix G for the Committee to consider, no changes are currently proposed.

**Resource Implications:**

The continued low interest rates, the use of limited counterparties and the short durations of investments have lowered the estimated interest income for 2015/16. However, the loan to the waste management service provider has partially offset this reduction.

**Legal and Governance Implications:**

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

- The Local Government 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 Secretary of State 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 were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA

Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

**Safer, Cleaner and Greener Implications:**

None.

**Consultation Undertaken:**

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

**Background Papers:**

None.

**Risk Management:**
As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

# Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

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No groups of people are affected by this report which is not directly service related.

# Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

## Introduction

In April 2002 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (now the 2011 Edition)* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

## External Context

**Economic background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% at its meeting on 14$^{th}$ January 2016. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did raise rates at its meetings in December. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

**Credit outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

**Interest rate forecast:** The Council's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as are continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on the risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.89%, and that new long-term loans will be borrowed at an average rate of 2%.

**Local Context**

The Council currently has £185m of borrowing and £54m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

| | 31.3.15 Actual £m | 31.3.16 Estimate £m | 31.3.17 Forecast £m | 31.3.18 Forecast £m | 31.3.19 Forecast £m |
|---|---|---|---|---|---|
| General Fund CFR | 29.6 | 43.5 | 55.0 | 63.9 | 62.2 |
| HRA CFR | 155.1 | 155.1 | 155.1 | 155.1 | 155.1 |
| **Total CFR** | **184.7** | **198.6** | **210.1** | **219.0** | **217.3** |
| Less: Other debt liabilities * | 0 | 0 | 0 | 0 | 0 |
| **Borrowing CFR** | **184.7** | **198.6** | **210.1** | **219.0** | **217.3** |
| Less: External borrowing ** | -185.5 | -185.5 | -185.5 | -185.5 | -185.5 |
| **Internal (Over) borrowing** | **-0.8** | **13.1** | **24.6** | **33.5** | **31.8** |
| Less: Usable reserves | -59.9 | -45.1 | -36.4 | -22.8 | -21.1 |
| Less: Working capital surplus | -9.2 | -5.0 | -5.0 | -5.0 | -5.0 |
| **Resources available for Investment** | **68.3** | **37.0** | **16.8** | **-5.7** | **-5.7** |

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £10m.

The Council has an increasing CFR due to the capital programme, but reducing investments and will therefore be required to borrow up to £16m over the forecast period. It is proposed to source this from other Local Authorities for the approximately 10 year period required.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

**Borrowing Strategy**

The Council currently holds £185 million of loans, the same as the previous year, as part of its strategy for funding Housing Self-Financing. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £16m in 2017/18 but does not expect to need to borrow in 2016/17. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £230 million.

Due to the availability of capital receipts, it has previously been possible to undertake some capital schemes which did not have positive revenue consequences. Going forward, borrowing will not be undertaken for any capital schemes that do not have positive revenue consequences.

**Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income – which is at very low levels) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Essex Pension Fund)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Other UK Local Authorities

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

**Short-term and Variable Rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

**Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has fallen from £65.5 to £54.4 million, and reduced levels are expected in the forthcoming year.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

**Strategy: G**iven the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. We do not anticipate funds will be available for longer-term investment. The majority of the Councils surplus cash remains invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the strategy adopted in 2015/16.

**Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited<br>50 years | n/a | n/a |
| AAA | £5m<br>5 years | £5m<br>20 years | £5m<br>50 years | £5m<br>20 years | £1m<br>20 years |
| AA+ | £5m<br>5 years | £5m<br>10 years | £5m<br>25 years | £5m<br>10 years | £1m<br>10 years |
| AA | £5m<br>4 years | £5m<br>5 years | £5m<br>15 years | £5m<br>5 years | £1m<br>10 years |
| AA- | £5m<br>3 years | £5m<br>4 years | £5m<br>10 years | £5m<br>4 years | £1m<br>10 years |
| A+ | £2.5m<br>2 years | £5m<br>3 years | £5m<br>5 years | £2.5m<br>3 years | £1m<br>5 years |
| A | £2.5m<br>13 months | £5m<br>2 years | £5m<br>5 years | £2.5m<br>2 years | £1m<br>5 years |
| A- | £2.5m<br>6 months | £5m<br>13 months | £2.5m<br>5 years | £2.5m<br>13 months | £1m<br>5 years |
| BBB+ | £2.5m<br>100 days | £2.5m<br>6 months | £1m<br>2 years | £1m<br>6 months | £1m<br>2 years |
| BBB | £1m<br>next day only | £2.5m<br>100 days | n/a | n/a | n/a |
| None | n/a | n/a | n/a | n/a | n/a |
| Pooled funds | £5m per fund | | | | |

This table must be read in conjunction with the notes below

**Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Council's current account bank, NatWest PLC.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers (Arlingclose), who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

**Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

| | Cash limit |
|---|---|
| Total long-term investments | £15m |
| Total investments without credit ratings or rated below A- | £5m |
| Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+ | £5m |
| Total non-specified investments | £30m |

Balances held overnight in the Council's bank are not included in these limits.

**Investment Limits**: The Council's revenue reserves available to cover investment losses are forecast to be £15million on 31st March 2016. In order that no more than 33% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

| | Cash limit |
|---|---|
| Any single organisation, except the UK Central Government | £5m each |
| UK Central Government | unlimited |
| Any group of organisations under the same ownership | £5m per group |
| Any group of pooled funds under the same management | £5m per manager |
| Negotiable instruments held in a broker's nominee account | £15m per broker |
| Foreign countries | £5m per country |
| Registered Providers | £5m in total |
| Unsecured investments with Building Societies | £5m in total |
| Loans to unrated corporates | £5m in total |
| Money Market Funds | £15m in total |

**Liquidity Management**: The Council uses its own cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

## Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| | **Target** | **Q2 Rating** |
|---|---|---|
| Portfolio average credit rating | A- | A+ |

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| | **Target** |
|---|---|
| Total cash available within 3 months | £15m |

**Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

| | **2016/17** | **2017/18** | **2018/19** |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | 100% | 100% | 100% |
| Upper limit on variable interest rate exposure | 75% | 75% | 75% |

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| | **Lower** | **Upper** |
|---|---|---|
| Under 12 months | 0% | 100% |
| 12 months and within 24 months | 0% | 100% |
| 24 months and within 5 years | 0% | 100% |
| 5 years and within 10 years | 0% | 100% |
| 10 years and within 20 years | 0% | 100% |
| 20 years and within 30 years | 0% | 100% |
| 30 years and within 40 years | 0% | 100% |
| 40 years and within 50 years | 0% | 100% |
| 50 years and above | 0% | 100% |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| Limit on principal invested beyond year end | £15m | £5m | £5m |

**<u>Other Items</u>**

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

**Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

**Policy on Apportioning Interest to the HRA:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

**Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed every month on average as part of the staff appraisal and Treasury Meetings process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

**Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by Officers experienced in these matters.

**Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £230 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

## Financial Implications

The budget for investment income in 2016/17 is £587,000, based on an average investment portfolio of £41million at an interest rate of 1.43%. The budget for debt interest paid in 2016/17 is £5.6million, based on an average debt portfolio of £185million at an average interest rate of 3%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources, having consulted the Portfolio Holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

**Appendix A – Arlingclose Economic & Interest Rate Forecast November 2015**

**Underlying assumptions:**

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

**Forecast:**

- **Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016**. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Official Bank Rate** | | | | | | | | | | | | | |
| **Upside risk** | | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 |
| **Arlingclose Central Case** | **0.50** | **0.50** | **0.50** | **0.75** | **0.75** | **1.00** | **1.00** | **1.25** | **1.25** | **1.50** | **1.50** | **1.75** | **1.75** |
| **Downside risk** | | | | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -1.00 | -1.00 | -1.25 | -1.25 |
| | | | | | | | | | | | | | |
| **3-month LIBID rate** | | | | | | | | | | | | | |
| **Upside risk** | 0.20 | 0.30 | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| **Arlingclose Central Case** | **0.55** | **0.60** | **0.70** | **0.80** | **0.95** | **1.05** | **1.15** | **1.30** | **1.40** | **1.55** | **1.65** | **1.80** | **1.85** |
| **Downside risk** | | -0.20 | -0.30 | -0.45 | -0.55 | -0.65 | -0.80 | -0.90 | -1.05 | -1.10 | -1.20 | -1.20 | -1.20 |
| | | | | | | | | | | | | | |
| **1-yr LIBID rate** | | | | | | | | | | | | | |
| **Upside risk** | 0.25 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.40 | 0.40 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 |
| **Arlingclose Central Case** | **1.10** | **1.20** | **1.35** | **1.45** | **1.55** | **1.70** | **1.80** | **1.95** | **2.00** | **2.10** | **2.15** | **2.15** | **2.15** |
| **Downside risk** | -0.15 | -0.25 | -0.35 | -0.50 | -0.60 | -0.70 | -0.85 | -0.95 | -1.10 | -1.15 | -1.25 | -1.25 | -1.25 |
| | | | | | | | | | | | | | |
| **5-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **1.50** | **1.55** | **1.60** | **1.70** | **1.80** | **1.90** | **2.00** | **2.10** | **2.20** | **2.25** | **2.30** | **2.35** | **2.35** |
| **Downside risk** | -0.35 | -0.45 | -0.55 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.10 | -1.15 | -1.20 | -1.25 | -1.25 |
| | | | | | | | | | | | | | |
| **10-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.00** | **2.05** | **2.10** | **2.20** | **2.30** | **2.40** | **2.50** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.80** |
| **Downside risk** | -0.35 | -0.45 | -0.55 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.10 | -1.15 | -1.20 | -1.25 | -1.25 |
| | | | | | | | | | | | | | |
| **20-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.45** | **2.50** | **2.55** | **2.55** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.85** | **2.90** | **2.95** | **2.95** |
| **Downside risk** | -0.30 | -0.40 | -0.50 | -0.55 | -0.65 | -0.75 | -0.85 | -0.95 | -1.05 | -1.10 | -1.15 | -1.20 | -1.20 |
| | | | | | | | | | | | | | |
| **50-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.45** | **2.50** | **2.55** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.85** | **2.90** | **2.95** | **3.00** | **3.00** |
| **Downside risk** | -0.25 | -0.35 | -0.45 | -0.50 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.05 | -1.10 | -1.15 | -1.15 |

**Appendix B – Existing Investment & Debt Portfolio Position**

| | 31.12.15<br>Actual Portfolio<br>£m | 31.12.15<br>Average Rate<br>% |
|---|---|---|
| **External Borrowing:** | | |
| PWLB – Fixed Rate | **153.656** | **3.000** |
| PWLB – Variable Rate | **31.800** | **0.78** |
| Local Authorities | **0** | **0** |
| LOBO Loans | **0** | **0** |
| **Total External Borrowing** | **185.456** | |
| **Other Long Term Liabilities:** | | |
| PFI | **0** | |
| Finance Leases | **0** | |
| **Total Gross External Debt** | **185.456** | |
| **Investments:** | | |
| *Managed in-house* | | |
| Short-term investments | **39.6** | **0.62** |
| Long-term investments | **5.0** | **1.30** |
| *Managed externally* | | |
| Fund Managers | **0** | |
| Pooled Funds | **10** | **0.49** |
| **Total Investments** | **54.6** | |
| **Net Debt** | **130.856** | |

Appendix C –

**Prudential Indicators 2016/17 to 2018/19**

1. **Background:**

   There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. **Gross Debt and the Capital Financing Requirement:**

   This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that 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.

   If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

   The Director of Resources reports that the Council had no difficulty meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. **Estimates of Capital Expenditure:**

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

| Capital Expenditure | 2015/16 Revised £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m |
|---|---|---|---|---|---|
| Non-HRA | 32.012 | 19.470 | 1.591 | 0.963 | 1.000 |
| HRA* | 17.905 | 28.127 | 26.561 | 25.436 | 17.942 |
| **Total** | **49.917** | **47.597** | **28.152** | **26.399** | **18.942** |

3.2 Capital expenditure will be financed or funded as follows:

| Capital Financing | 2015/16 Revised £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m |
|---|---|---|---|---|---|
| Capital receipts | 16.373 | 8.192 | 5.048 | 4.492 | 2.294 |
| Grants | 3.393 | 1.015 | 0.565 | 0.565 | 0.565 |
| Borrowing | 12.454 | 12.621 | 0 | 0 | 0 |
| Revenue contributions | 17.597 | 25.769 | 22.539 | 21.342 | 16.083 |
| **Total Financing** | **49.917** | **47.597** | **28.152** | **26.399** | **18.942** |

Table 1 shows that the capital expenditure plans of the Authority can be funded from a variety of sources, including external borrowing.

**4. Ratio of Financing Costs to Net Revenue Stream:**

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

| Ratio of Financing Costs to Net Revenue Stream | 2014/15 Actual % | 2015/16 Estimate % | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % |
|---|---|---|---|---|---|
| Non-HRA | 0.08 | -0.06 | -0.83 | -1.22 | -4.00 |
| HRA | 15.16 | 15.81 | 15.03 | 14.47 | 14.15 |

**5. Capital Financing Requirement:**

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

| Capital Financing Requirement | 2014/15 Actual £m | 2015/16 Revised £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| HRA | 155.1 | 155.1 | 155.1 | 155.1 | 155.1 |
| Non-HRA | 29.6 | 43.5 | 55.0 | 63.9 | 62.2 |
| **Total CFR** | **184.7** | **198.6** | **210.1** | **219.0** | **217.3** |

5.2 The Council has embarked on a house building programme. The preliminary work started during 2012/13 with the works themselves starting in 2013/14. Given the need to borrow for any additional house building the Council took advantage of the competitive borrowing rates whilst it could, rather than borrowing in a few years' time when rates were predicted to increase. In the meantime this has allowed the General Fund to continue (as it has done for a number of years) to internally borrow from the Housing Revenue Account at an appropriate rate. This results in no detrimental impact on the General Fund from self-financing and is fair to the HRA as it will still broadly receive the same level of income that it would have had if it had invested the money, rather than loaned internally to the GF.

## 6. Incremental Impact of Capital Investment Decisions:

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

| Incremental Impact of Capital Investment Decisions | 2015/16 Estimate £ | 2016/17 Estimate £ | 2017/18 Estimate £ | 2018/19 Estimate £ |
|---|---|---|---|---|
| Increase in Band D Council Tax | -0.28 | 0.15 | -0.06 | -1.01 |
| Increase in Average Weekly Housing Rents | 0.02 | 0.01 | -16.80 | -25.91 |

## 7. Authorised Limit and Operational Boundary for External Debt:

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

7.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

| | **2015/16 Approved £m** | **2015/16 Revised £m** | **2016/17 Estimate £m** | **2017/18 Estimate £m** | **2018/19 Estimate £m** |
|---|---|---|---|---|---|
| Authorised Limit for Borrowing | 230.00 | 230.00 | 240.00 | 250.00 | 250.00 |
| **Authorised Limit for External Debt** | **230.00** | **230.00** | **240.00** | **250.00** | **250.00** |
| Operational Boundary for Borrowing | 204.00 | 218.00 | 230.00 | 239.00 | 237.00 |
| **Operational Boundary for External Debt** | **204.00** | **218.00** | **230.00** | **239.00** | **237.00** |

## 8. Adoption of the CIPFA Treasury Management Code:

8.1 This indicator demonstrates that the Council has adopted the principles of best practice.

| Adoption of the CIPFA Code of Practice in Treasury Management |
|---|
| The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22 April 2002. |

*The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.*

## 9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

| | 2015/16 Approved % | 2015/16 Revised % | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % |
|---|---|---|---|---|---|
| **Fixed** | | | | | |
| **Upper Limit for Fixed Interest Rate Exposure on Debt** | 100 | 100 | 100 | 100 | 100 |
| **Upper limit for Fixed Interest Rate Exposure on Investments** | (100) | (100) | (100) | (100) | (100) |
| **Variable** | | | | | |
| **Upper Limit for Variable Interest Rate Exposure on Debt** | 25 | 25 | 25 | 25 | 25 |
| **Upper Limit for Variable Interest Rate Exposure on Investments** | (75) | (75) | (75) | (75) | (75) |

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

## 10. Credit Risk:

10.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

10.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

10.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

10.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Appendix D –**

**Appendix D – Current Recommended Sovereign and Counterparty List as at 30/10/2015 (Section 8)**

| Country/ Domicile | Counterparty | Maximum Counterparty Limit £m | Maximum Group Limit (if applicable) £m | Maximum Maturity Limit |
|---|---|---|---|---|
| UK | Santander UK Plc<br>(Banco Santander Group) | 5.0 | | 6 months |
| UK | Bank of Scotland<br>(Lloyds Banking Group) | 5.0 | 5.0 | 13 months |
| UK | Lloyds TSB<br>(Lloyds Banking Group) | 5.0 | | 13 months |
| UK | Barclays Bank Plc | 5.0 | | 100 days |
| UK | HSBC Bank Plc | 5.0 | | 13 months |
| UK | Nationwide Building Society | 5.0 | | 6 months |
| UK | NatWest<br>(RBS Group) | 2.5 | 2.5 | 35 days |
| UK | Royal Bank of Scotland<br>(RBS Group) | 2.5 | | 35 days |
| UK | Standard Chartered Bank | 5.0 | | 6 months |
| Australia | Australia and NZ Banking Group | 5.0 | | 6 months |
| Australia | Commonwealth Bank of Australia | 5.0 | | 6 months |
| Australia | National Australia Bank Ltd<br>(National Australia Bank Group) | 5.0 | | 6 months |
| Australia | Westpac Banking Corp | 5.0 | | 6 months |
| Canada | Bank of Montreal | 5.0 | | 13 months |
| Canada | Bank of Nova Scotia | 5.0 | | 13 months |
| Canada | Canadian Imperial Bank of Commerce | 5.0 | | 13 months |
| Canada | Royal Bank of Canada | 5.0 | | 13 months |
| Canada | Toronto-Dominion Bank | 5.0 | | 13 months |
| Finland | Nordea Bank Finland | 5.0 | | 13 months |
| France | BNP Paribas | Suspended | | Suspended |
| France | Credit Agricole CIB (Credit Agricole Group) | Suspended | | Suspended |
| France | Credit Agricole SA (Credit Agricole Group) | Suspended | | Suspended |

| | | | | |
|---|---|---|---|---|
| France | Société Générale | Suspended | | Suspended |
| Germany | Deutsche Bank AG | 2.5 | | 35 days |
| Netherlands | ING Bank NV | 5.0 | | 100 days |
| Netherlands | Rabobank | 5.0 | | 13 months |
| Netherlands | Bank Nederlandse Gemeenten | 5.0 | | 13 months |
| Sweden | Svenska Handelsbanken | 5.0 | | 13 months |
| Switzerland | Credit Suisse | 5.0 | | 100 days |
| US | JP Morgan | 5.0 | | 13 months |

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.*

**Group Limits -** For institutions within a banking group, the authority executes a limit of that of an individual limit of a single bank within that group.

**Appendix E – Non-Specified Investments**

| Instrument | Maximum maturity | Maximum £M | Capital expenditure? | Example |
|---|---|---|---|---|
| Call accounts, term deposits & CDs with banks, building societies & local authorities which do not meet the specified investment criteria (on advice from TM Adviser) | 5 years | 10 | No | |
| Deposits with registered providers | 5 years | 1 | No | |
| Gilts | 5 years | 10 | No | |
| Bonds issued by multilateral development banks | 5 years | 5 | No | *EIB Bonds, Council of Europe Bonds etc.* |
| Sterling denominated bonds by non-UK sovereign governments | 5 years | 5 | No | |
| Money Market Funds and Collective Investment Schemes | 5 years | 15 | No | *Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund* |
| Corporate loans and debt instruments issued by corporate bodies | 5 years | 10 | No | |
| Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 | These funds do not have a defined maturity date | 10 | Yes | *Way Charteris Gold Portfolio Fund; Lime Fund* |

**Appendix F – MRP Statement 2016/17**

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

*NB This does not preclude other prudent methods.*

MRP in 2016/17: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to the Council at that time.

The Council's CFR at 31st March 2012 became positive as a result of the Housing Subsidy reform settlement. This would normally require the Council to charge MRP to the General Fund in respect of Non-HRA capital expenditure funded from borrowing. CLG has produced regulations which mitigate this impact, and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2013/14 and subsequently for HRA Self-Financing.

If, as is likely, the Council undertakes General Fund borrowing in 2016/17 then in the following financial year, 2017/18, there will be a requirement to charge MRP.

# TREASURY MANAGEMENT POLICY STATEMENT

## 1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council will 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, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance & Performance Cabinet Committee and for the execution and administration of treasury management decisions to the Director of Resources who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## 2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

# *Report to the Audit and Governance Committee*

## *Report reference: C-016-2015/16*
## *Date of meeting: 01 Feb 2016*

Epping Forest District Council

**Portfolio:** **Governance and Development Management**

**Subject:** **Internal Audit Monitoring Report - December 2015 and January 2016**

**Responsible Officer:** **Sarah Marsh (01992 564446).**

**Democratic Services:** **Gary Woodhall (01992 564470).**

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**Recommendations/Decisions Required:**

**(1) The Committee notes on the progress being made against the 2015/16 Internal Audit plan and by the Corporate Fraud Team; and**

**(2) The Committee agrees the suggestion to drop or defer a small number of audits.**

**Executive Summary:**

This report provides a summary of the work undertaken by Internal Audit between December 2015 and January 2016, progress against the 2015/16 Internal Audit plan and a summary of the work undertaken by the Corporate Fraud Team.

**Reasons for Proposed Decision:**

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

**Other Options for Action:**

No other options.

**Report:**

2015/16 Internal Audit Plan

1. Work has continued on the 2015/16 Audit Plan as detailed in Appendix 1. In order to deliver this year's plan within the resources available, the Audit & Governance Committee is requested to approve the deferral of the audits detailed in the table below. Whether they will be included in next year's work plan will form part of the audit planning process for 2016/17 due to be reported to the March 2016 meeting of the Committee:

- Gifts and Hospitality – defer to next year to allow time for the introduction of a new electronic system.

- Grants to Voluntary Organisations – defer due to a bereavement within the section.

- Facilities Management Contracts – cover in next year's proposed e-invoicing audit as Facilities are piloting the new system.

- Equality and Diversity – deferred at the request of management due to staffing vacancies and competing priorities within the section. Not deemed a high risk area by Internal Audit.

- ICT Asset Management – remove because the ICT department are undertaking their stock check of ICT assets following an internal theft.

2. It is important that sufficient audit work is undertaken in order that the Chief Internal Auditor can give their annual opinion. It is expected that despite the need to defer/slip a small number of audits there will still be sufficient coverage through the remaining audits, and Internal Audit's proactive work, to enable the opinion to be provided for 2015/16. This will be kept under constant review in conjunction with the Corporate Governance Group.

3. It is envisaged that the work for the remainder of this year's Audit Plan will be completed in time for year-end reporting to the July Audit and Governance Committee.

<u>Internal Audit Reports</u>

4. The following four reports have been issued since the Committee received its last update in November 2015:

- **Community Partnerships** – substantial assurance – this report recommended the introduction of a Partnership Protocol to give guidance to staff on the key processes to follow when establishing or joining new partnerships, although officers have successfully created and maintained partnerships without such a document being in place. The definition of a community partnership used in the audit was a *formal joint working arrangement where the partners:*
    - *are otherwise independent bodies from any sector;*
    - *agree to co-operate to achieve common goals and outcomes for the community; and*
    - *share accountability, risks or resources.*

- **Council housebuilding programme** – substantial assurance – This audit confirmed the following:
    - Robust and transparent processes for monitoring and reporting on 1-4-1 Right To Buy receipts as the government allows these to fund the cost of new affordable housing as long as the receipts are spent within three years, otherwise they have to be returned with interest. As at 1 December 2015, a total of 125 Right to Buy properties have been sold since the scheme commenced. The Council are considering the purchase of properties on the open market to avoid returning 1-4-1 receipts to the Government in the near future because there have been delays (mainly planning approval and contractor performance).
    - Good oversight of the current house building programme and associated risks by Council Officers with phase 1 in progress (13 of 23 units have been completed), phase 2 at tender stage (51 units) and planning for phases 3-6 has commenced. Longer term the resource requirements and methodology for managing the overall programme needs to be considered to ensure Epping Forest District Council retain overall control rather than relying on the Development Agent.

- **Licensing** – substantial assurance – This audit focussed on the two highest licencing income streams for the Council: alcohol at £35K p.a. and taxis being £90K p.a. and found robust processes to ensure expected income is received and reconciled. In addition, the audit confirmed the necessary checks regarding taxi licenses take place including MOT, taxi tests and meter checks plus DBS (Disclosure and Barring Service) and medical checks.

- **Planning Fees** – limited assurance – between April and October 2015 over 2,000 planning applications have been submitted generating over £546k in fees, which have been charged in accordance with the fee structure. This audit has been given limited assurance because recommendations made in the 14/15 report have yet to be implemented; the main concern being the ability to ensure all income due is collected and accounted for.

  The Development Control Team has yet to adopt a regular monthly reconciliation process. The ICT Team has been unable to devise a report to enable regular reconciliations between Planning's M3 system and the General Ledger, making reconciliations largely a manual process although the Section has raised this issue with Northgate, the IT system provider.

Recommendation Tracker

5. The Audit and Governance Committee receives details of all overdue recommendations, plus any priority one recommendations from final reports regardless of whether they are overdue or not. The current tracker (Appendix 2) contains one priority one recommendation passed its due date which was reported at the November 2015 meeting.

6. The priority one recommendation reported at the November 2015 Committee has been shaded out as it has been replaced with the one raised in this year's Planning Fees report, which also re-instated the 2014/15 recommendation about notifying applicants about returning of invalid applications and hence features on this tracker as overdue.

| Recommendation type | Number (as at January 2016) |
|---|---|
| Priority one not passed its due date | 0 |
| Priority one passed its due date | 1 |
| Priority two passed its due date | 1 |
| Priority three passed its due date | 1 |

Service Assurance Statements

7. On an annual basis each directorate undertakes their own review of the effectiveness of their governance; risk management and internal control arrangements through the completion of a standard checklist. Findings and key themes/common issues feed into the Annual Governance Statement.

8. The process is facilitated by Internal Audit who issue and review the checklists used to gather this assurance and, where applicable, challenge what is being presented.

9. The process has been modified this year in that each Assistant Director has to complete an assurance statement for their service, which has to be signed off by their Director. Assistant Directors are encouraged to complete the statements with their teams.

This helps promote greater accountability as previously only Directors had to complete the assurance statement, with one statement per directorate.

<u>Corporate Fraud Team</u>

10. The Corporate Fraud Team is continuing to focus on the large numbers of Right to Buy applications currently being received; maintaining a policy of visiting and interviewing all applicants. This has resulted in a further five applications being found as “suspicious” (and are therefore being investigated further) whilst an additional four tenants have not proceeded with their applications.

11. Following a long investigation, a sought after 3 bedroom semi-detached property in Ongar has been recovered. The tenant, who was found to have abandoned the property, surrendered the tenancy.

12. In December 2015 the Council successfully prosecuted an individual in relation to Local Council Tax Support fraud. Another prosecution relating to a housing fraud case is to be heard at Crown Court in February 2016 as, due to the serious nature of the charges, the magistrates declined jurisdiction.

13. The Team is also currently undertaking investigations for several housing fraud matters including illegal subletting.

**Resource Implications:**

Within the report.

**Legal and Governance Implications:**

None.

**Safer, Cleaner and Greener Implications:**

None.

**Consultation Undertaken:**

Corporate Governance Group.

**Background Papers:**

2015/16 Audit and Resource Plan.

**Risk Management:**

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

# Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

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| Date/Name | Summary of equality analysis |
|---|---|
| 01/02/16<br>Chief Internal Auditor | The report is a summary of the work carried out by Internal Audit and has no equality implications. |

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## Appendix 1 - Audit Plan Monitoring 2015-16
## January 2016

| | Directorate | Plan Days | Status | Fieldwork started | Report issued to Management | Finalised | Opinion: Level of Assurance | Priority 1 Recs | Priority 2 Recs | Priority 3 Recs |
|---|---|---|---|---|---|---|---|---|---|---|
| Business Plans | Resources | 10 | Final report | n | n | n | Substantial | 0 | 0 | 2 |
| Reprographics | Resources | 10 | Final report | n | n | n | Substantial | 0 | 1 | 0 |
| Management of Sickness Absence | Resources | 10 | Final report | n | n | n | Substantial | 0 | 2 | 0 |
| Key and Local Performance Indicators | Governance | 15 | Final report | n | n | n | Substantial | 0 | 1 | 0 |
| Norway House (hostel) | Communities | 10 | Final report | n | n | n | Substantial | 0 | 1 | 0 |
| Homeless Prevention (Bed and Breakfast) | Communities | 10 | Final report | n | n | n | Limited | 2 | 2 | 0 |
| Members Allowances | Governance | 10 | Final report | n | n | n | Substantial | 0 | 1 | 0 |
| Local Land Charges | Governance | 10 | Final report | n | n | n | Substantial | 0 | 1 | 0 |
| Corporate Partnerships | Corporate | 10 | Final report | n | n | n | Substantial | 0 | 2 | 2 |
| Grounds Maintenance | Neighbourhoods | 10 | Final report | n | n | n | Substantial | 0 | 4 | 1 |
| Council Housebuilding Programme (c/f from 14/15 Plan) | Communities | 15 | Final report | n | n | n | Substantial | 1 | 2 | 0 |
| Planning Fees * | Governance | 20 | Draft report | n | n | | Limited | 1 | 0 | 2 |
| Licensing * | Neighbourhoods | 10 | Draft report | n | n | | Substantial | 0 | 0 | 2 |
| Local Plan | Neighbourhoods | 10 | In progress | n | | | | | | |
| Business Rates | Key Financial Control | 20 | In progress | n | | | | | | |
| Commercial Property * | Neighbourhoods | 10 | In progress | n | | | | | | |
| Right To Buy * | Communities | 10 | Scoping | | | | | | | |
| Private Sector Housing Grants * | Communities | 15 | Scoping | | | | | | | |
| Data Protection Act (External Data Transfers) * | Governance | 10 | Scoping | | | | | | | |
| Debt Recovery within Legal Services (c/f from 14/15 Plan) | Governance | 10 | In progress | n | | | | | | |
| Corporate Asset Register * | Resources | 5 | Scoping | | | | | | | |
| Budgetary Control * | Resources | 10 | Scoping | | | | | | | |
| Sundry Debtors * | Key Financial Control | 15 | Scoping | | | | | | | |
| Housing Benefits and Council Tax Support | Key Financial Control | 20 | In progress | n | | | | | | |
| Economic Development | Neighbourhoods | 10 | Scoping | | | | | | | |
| Langston Road Development (new audit) | Neighbourhoods | 10 | In progress | n | | | | | | |
| Depot Health and Safety (new audit) | Neighbourhoods | 10 | Scoping | | | | | | | |
| Corporate Procurement | Resources | 15 | Scoping | | | | | | | |
| Car Parking Contract | Neighbourhoods | 10 | Scoping | | | | | | | |
| Access Controls | ICT | 10 | Scoping | | | | | | | |
| Payroll (incl mileage claims, overtime and committee allowances) | Key Financial Control | 20 | | | | | | | | |
| Bank Reconciliations (incl cash receipting & income control) | Key Financial Control | 15 | | | | | | | | |
| Creditors (incl travel and subsistence claims) | Key Financial Control | 15 | Scoping | | | | | | | |
| Council Tax | Key Financial Control | 20 | Scoping | | | | | | | |

## Appendix 1 - Audit Plan Monitoring 2015-16
## January 2016

| | Directorate | Plan Days | Status | Fieldwork started | Report issued to Management | Finalised | Opinion: Level of Assurance | Priority 1 Recs | Priority 2 Recs | Priority 3 Recs |
|---|---|---|---|---|---|---|---|---|---|---|
| General Ledger | Key Financial Control | 15 | | | | | | | | |
| Treasury Management | Key Financial Control | 10 | | | | | | | | |
| Waste Management and Recycling (c/f from 14/15 Plan) | Neighbourhoods | 20 | | | | | | | | |
| North Weald Airfield | Neighbourhoods | 15 | | | | | | | | |
| Housing Rents* | Key Financial Control | 20 | Scoping | | | | | | | |
| Email, Internet and Telephone Usage | ICT | 10 | Scoping | | | | | | | |
| Housing Repairs Service | Communities | 20 | Scoping | | | | | | | |
| Rental Assistance Loans | Communities | 10 | Scoping | | | | | | | |
| Risk Management | Resources | 10 | Scoping | | | | | | | |
| Recruitment and Selection (c/f from 14/15 Plan) | Resources | 10 | | | | | | | | |
| **Totals** | **Totals** | **560** | | **16** | **13** | **10** | | **4** | **17** | **9** |

**Drop/defer (subject to approval)**

| | | |
|---|---|---|
| Gifts and Hospitality | Governance | 10 |
| Grants to Voluntary Organisations | Communities | 10 |
| Facilities Management Contracts | Resources | 10 |
| Equalities (c/f from 14/15 Plan) | Governance | 10 |
| ICT Asset Management (was ICT Procurement) | ICT | 10 |

**Key**

***** Audits being completed by Mazars

**Abbreviations**

Incl = including

c/f = carried forward

**EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**
Last updated: 20 January 2016

| Audit Year (Date Report Issued) | Rec Ref | Original Recommendation | Priority | Managers Original Response | Responsible Officer / Assistant Director | Agreed Imp Date | Revised Imp Date | Status Update from Management | Status |
|---|---|---|---|---|---|---|---|---|---|
| **Previous Priority One Recommendations 2014/15** | | | | | | | | | |
| **Planning Fees**<br>Report No. 713<br>July 2014 | 4.1 | Development Control management to liaise with ICT to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to reconcile. Reconciliation to be brought up to date and then completed monthly to establish control within the process. | 1 | Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner. Recent audit input has resulted in a simpler reconciliation which will reduce the work required. | Assistant Director (Development Manager) | March 2015 | 31/12/15 | Aug15: ICT and Accountancy are providing assistance with the reconciliations. A report from M3 has been developed and the reconciliation for June 2015 has been completed. The reconciliations for April and May 2015 are still to be completed.<br><br>Nov 15: Progress is being made on the reconciliations and efforts are being concentrated on bringing the 2015/16 reconciliations up to date. | Overdue<br><br>**Replaced by new audit recommendation (report 760 issued January 2016)** |
| **Audit Recommendations 2015/16** | | | | | | | | | |
| **Management of Sickness Absence**<br>Report No. 749<br>July 2015 | 4.1 | In conjunction with Directors and Assistant Directors, Human Resources should monitor the action being taken by Managers in relation to sickness absence to ensure the Managing Absence Policy is being complied with. | 2 | The case management report is currently under review and will be restarted once the format and content has been agreed. | Assistant Director (Human Resources) | 31/12/15 | 31/03/16 | Dec 15: We have been concentrating on the decision from the Data Working Group to send out automated information to managers informing them of their staff who have met the trigger levels and the need to carry out an evaluation meeting. This means there will be no need for sickness databases to be held by Directorate Support Teams.<br><br>Jan 16: This is still the case and we are carrying out a pilot within Communities regarding the automated emails informing managers of employees meeting the trigger levels. | Overdue |
| **Planning Fees**<br>Report No. 760 | 1 | Development Control should work with the Northgate (M3) providers and ICT and establish a | 1 | Two separate processes will be implemented to ensure adequate audit assurance that the | Business Manager | March 2015 | 01/04/16 | | Overdue |

**EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**
Last updated: 20 January 2016

| Audit Year (Date Report Issued) | Rec Ref | Original Recommendation | Priority | Managers Original Response | Responsible Officer / Assistant Director | Agreed Imp Date | Revised Imp Date | Status Update from Management | Status |
|---|---|---|---|---|---|---|---|---|---|
| | | finance report to enable regular reconciliation, including refunds, between M3 and the General Ledger.<br><br>In the meantime, the Finance and Procurement Officer should manually reconcile each month's income, including refunds, between M3 and the General Ledger.<br><br>The Assistant Director of Development Management should sign off the reconciliation each month to evidence that the reconciliation has been completed.<br><br>Once regular reconciliations are in place, the outcomes should be reported to management on a monthly basis. | | financial recording and verification of planning income takes place.<br>**<u>Effective Reconciliation of DC income at source</u>**<br>It is proposed the Senior Technical Officer Development Control carries out a weekly reconciliation of DC income to ensure that all planning application income is recorded accurately on all three systems – Northgate M3, Capita and e-financials. Particular emphasis will be on ensuring that cash / cheque payments are recorded accurately against relevant planning applications and those refunds are recorded correctly and verified.<br>**<u>Overall Periodic Reconciliation</u>**<br>It will also be recommended that the Development Management Accounts and Invoices Officer will carry out a periodic reconciliation ideally on a monthly basis. The current format and work carried out by the Accounts and Invoices Officer should be further developed in liaison with ICT/Finance. | Assistant Director (Development Management) | | | | |

**EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**
Last updated: 20 January 2016

| Audit Year (Date Report Issued) | Rec Ref | Original Recommendation | Priority | Managers Original Response | Responsible Officer / Assistant Director | Agreed Imp Date | Revised Imp Date | Status Update from Management | Status |
|---|---|---|---|---|---|---|---|---|---|
| | | | | This should be submitted in the form of a monthly/periodic written return to the Assistant Director Development Management and the current system and format developed by ICT and Finance should continue to be utilised as an independent verification process.<br><br>If effective verification of DC Income takes place on a weekly basis at source, then the overall error rate that the Accounts/Invoices Officer experiences at monthly/periodic intervals should be significantly reduced. | | | | | |
| **Planning Fees Report No. 760** | 3 | Invalid applications should be returned within three months in accordance with the Council's policy. | 3 | When workload is high, as it currently has been for the last couple of years, and there has been a turnaround of staff in this section who need training, this admittedly has had a lower priority compared with the main task of registering planning applications, preparing reports for planning committees and issuing planning permission. However, as set out in our policy, we will target this area for improvement and compliance. | Senior Technical Officer Development Control<br><br>Assistant Director (Development Management) | Sept 2014 | 30/04/16 | | Overdue |

**EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**
Last updated: 20 January 2016