



**Epping Forest  
District Council**

***AUDIT AND GOVERNANCE COMMITTEE  
Monday, 6th February, 2017***

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, 6th February, 2017  
at 7.00 pm .**

**Glen Chipp  
Chief Executive**

**Democratic Services  
Officer**

Gary Woodhall  
(Governance Directorate)  
Tel: 01992 564470  
Email: [democraticservices@eppingforestdc.gov.uk](mailto:democraticservices@eppingforestdc.gov.uk)

**Members:**

Councillors J Knapman (Chairman), L Hughes, R Jennings, A Patel and J M Whitehouse

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

**PLEASE NOTE THE START TIME OF THE MEETING**

**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**

(Director of Governance) To confirm the minutes of the last meeting of the Committee held on 28 November 2016 (previously circulated).

<http://rds.eppingforestdc.gov.uk/documents/g8718/Printed%20minutes%2028th-Nov-2016%2019.00%20Audit%20and%20Governance%20Committee.pdf?T=1>

**5. MATTERS ARISING**

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

**6. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17 (Pages 5 - 6)**

(Director of Governance) To consider the attached Work Programme for 2016/17.

**7. CODE OF CORPORATE GOVERNANCE (Pages 7 - 22)**

(Director of Governance) To consider the attached report (AGC-015-2016/17).

**8. EXTERNAL QUALITY ASSURANCE OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (Pages 23 - 52)**

(Chief Internal Auditor) To consider the attached report (AGC-016-2016/17).

**9. INTERNAL AUDIT MONITORING REPORT - NOVEMBER 2016 TO FEBRUARY 2017 (Pages 53 - 82)**

(Chief Internal Auditor) To consider the attached report (AGC-017-2016/17).

**10. TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18 (Pages 83 - 122)**

(Director of Resources) To consider the attached report (AGC-018-2016/17).

**11. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972 requires 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.

**12. 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):

<b>Agenda Item No</b>	<b>Subject</b>	<b>Exempt Information Paragraph Number</b>
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.

**Background Papers:**

Article 17 of the Constitution (Access to Information) 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 and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection one copy of each of the documents on the list of background papers for four years after the date of the meeting. Inspection of background papers can be arranged by contacting either the Responsible Officer or the Democratic Services Officer for the particular item.

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## **Audit & Governance Committee Work Programme 2016/17**

### **27 June 2016**

- Internal Audit Annual Report 2015/16.
- Audit & Governance Committee Annual Report.
- Annual Governance Statement.
- Internal Audit Progress Report.

### **19 September 2016**

- Treasury Management Annual Outturn Report.
- Statutory Statement of Accounts.
- Internal Audit Progress Report.

- ❖ Annual Governance Report 2015/16.

### **28 November 2016**

- Treasury Management Mid-Year Report.
- Internal Audit Progress Report.
- Review of the Audit and Governance Committee Terms of Reference.
- Review of the Audit and Governance Committee Effectiveness.

- ❖ Annual Audit Letter 2015/16.

### **6 February 2017**

- Treasury Management Investment & Strategy Statements.
- Internal Audit Progress Report.
- Review of the Internal Audit Charter.

- ❖ Grant Claims Audit Report 2015/16.

### **27 March 2017**

- Effectiveness of Risk Management.
- Internal Audit Progress Report
- Internal Audit Strategy and Audit Plan 2017/18.
- Internal Audit Compliance with the Public Sector Internal Audit Standards
- Corporate Fraud Team Strategy 2017/18

- ❖ Planning Letter 2017/18.

- ❖ Audit Plan 2016/17.

### **Unallocated Items**

- 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 27 March 2017 meeting in the Conference Room.*

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## ***Report to the Audit and Governance Committee***



**Epping Forest  
District Council**

**Report reference: AGC-015-2016/17**

**Date of meeting: 6 February 2017**

**Portfolio: Governance and Development Management**

**Subject: Code of Corporate Governance**

**Responsible Officer: Simon Hill (01992 564449).**

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

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### **Recommendations/Decisions Required:**

- (1) That the Committee consider and comment upon a revised version of the Council's Code of Corporate Governance, as attached at Appendix 1; and**
- (2) That the Code be approved and subject to annual review by the Committee.**

### **Reasons for Proposed Decision:**

CIPFA and Solace have published a new framework for Corporate Governance which will apply from 2016/17. The Corporate Governance Group requested that a review was undertaken to meet that requirement.

### **Other Options for Action:**

No other options are appropriate in this respect. The Council must adopt a Code which reflects the requirements of the new Framework.

### **Report:**

1. "Delivering Good Governance in Local Government: Framework", published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remains 'fit for purpose' and published a revised edition in spring 2016. The new Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

2. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3. Guidance from CIPFA/Solace on the new framework runs to some 120 pages. It envisages that the authority should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to:

- consider the extent to which the authority complies with the principles of good governance set out in the Framework;
- identify systems, processes and documentation that provide evidence of compliance;
- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified; and
- identify issues that have not been addressed in the authority and consider how they should be addressed.

4. At its meeting in November, the Council's Corporate Governance Group expressed the view that there are sound governance arrangements at the Council and approved the draft code for consideration by members.

5. Annual reports on the effectiveness of the arrangements are submitted to the Audit and Governance Committee on an annual basis. The last occasion was on 27 June when the arrangements were considered 'fit for purpose'.

6. The new Code seeks to address how the Council meet the new principles. It is expected to:

- (i) behave with integrity, demonstrating a strong commitment to ethical values and respect the rule of law;
- (ii) ensure openness in its culture and engage comprehensively with stakeholders, citizens and service users;
- (iii) have a clear vision and defined desired outcome in terms of sustainable, social and environmental benefit;
- (iv) have in place interventions necessary to optimise the achievement of its intended outcomes;
- (v) develop its capacity and capability of its leadership and staff;
- (vi) manage its risk and performance through robust internal control and strong public finance management; and
- (vii) implement good practice in transparency, reporting and audit to deliver effective accountability.

7. The attached document attempts to codify how the Council meets the principles and associated sub-principles within the framework.

8. The final draft document is attached for approval. The next Annual Governance Statement will then need to relate to the new framework and demonstrate how the requirements of the framework are met.

#### **Resource Implications:**

None unless further review is required.

#### **Legal and Governance Implications:**

Matter is covered within Regulation 6(1)(a) of the Accounts and Audit Regulations 2015.



**Safer, Cleaner, Greener Implications:**

None.

**Consultation Undertaken:**

CGG's views are sought as to future direction.

**Background Papers:**

Framework produced in April 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled "Delivering Good Governance in Local Government" – Document available on request.

**Risk Management:**

No new risks are introduced as part of the adoption of the new Code. The Code introduces the requirement for the Council to apply greater emphasis to the annual review of effectiveness of its governance arrangements which should have the effect during subsequent reviews of flagging areas where improvements may be necessary and improving risk management.

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# Equality analysis report

## Step 1. About the policy, service change or withdrawal

Name of the policy, service or project: <i>be specific</i>	Code of Corporate Governance
Revised / new / withdrawal:	Revised
Intended aims / outcomes/ changes:	Audit and Governance Committee approves the revised Code and reviews its effectiveness on an annual basis
Relationship with other policies / projects:	The code attempts to bring together the governance elements across the breadth of the Council's policies and plans
Name of senior manager for the policy / project:	Colleen O'Boyle
Name of policy / project manager:	Simon Hill

## Step 2. Decide if the policy, service change or withdrawal is equality relevant

Does the policy / project / service process involve, or have consequences for employees or other people? If yes, please state who will be affected. If yes, then the policy / project is equality relevant. <i>No</i>	If yes, state which protected groups:
If no, state your reasons for this decision. Go to step 7.  <i>The revised code reflects solely existing Council policies and frameworks</i>	If no, state reasons for your decision: There is no impact on individuals or groups of individuals being a high level review of the Internal Audit function.

## Step 3. Gather evidence to inform the equality analysis

What evidence have you gathered to help you understand the impact of your policy or service change or withdrawal on people? What does your evidence say about the people with the protected characteristics? If there is no evidence available for any of the characteristics, please explain why this is the case, and your plans to obtain relevant evidence. Please refer to Factsheet 2 '*Sources of evidence for the protected characteristics*'

<i>Characteristic</i>	<i>Evidence (name of research, report, guidance, data source etc)</i>	<i>What does this evidence tell you about people with the protected characteristics?</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		

Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Steps 4 & 5 Analyse the activity, policy or change (*The duty to eliminate unlawful discrimination*)**

Based on the evidence you have analysed, describe any actual or likely adverse impacts that may arise as a result of the policy decision. Where actual or likely adverse impacts have been identified, you should also state what actions will be taken to mitigate that negative impact, ie what can the Council do to minimise the negative consequences of its decision or action.

<i>Characteristic</i>	<i>Actual or likely adverse impacts identified</i>	<i>Actions that are already or will be taken to reduce the negative effects identified</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Step 6.**

##### **The duty to advance equality of opportunity**

Can the policy, service or project help to advance equality of opportunity in any way? If yes, provide details. If no, provide reasons. (*Note: not relevant to marriage and civil partnership*)

<i>Characteristic</i>	<i>Ways that this policy, service or project can advance equality of opportunity</i>	<i>Why this policy, service or project cannot help to advance equality of opportunity:</i>
Age		
Dependents / caring responsibilities		

Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### The duty to foster good relations

Can the policy, service or project help to foster good relations in any way? If yes, provide details. If no, provide reasons. *(Note: not relevant to marriage and civil partnership)*

<i>Characteristic</i>	<i>How this policy, service or project can foster good relations:</i>	<i>Why this policy, service or project cannot help to foster good relations:</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### Step 7. Documentation and Authorisation

Summary of actions to be taken as a result of this analysis (add additional rows as required):	Name and job title of responsible officer	How and when progress against this action will be reported
1. Annual review of how the Council meets its commitments under the code	S Marsh	Progress will be assessed as part of the report to the Audit and Governance Committee on the Annual Governance Statement.

Name and job title of officer completing this analysis:	Simon Hill
Date of completion:	26/01/17
Name & job title of responsible officer: (If you have any doubts about the completeness or sufficiency of this equality analysis, advice and support are available from the Performance Improvement Unit)	Assistant Director Governance and Performance Management
Date of authorisation:	
Date signed copy and electronic copy forwarded to PIU <a href="mailto:equality@eppingforestdc.gov.uk">equality@eppingforestdc.gov.uk</a>	

### **Step 8. Report your equality analysis to decision makers:**

Your findings from this analysis (and any previous analysis) must be made available to a decision making body when it is considering the relevant service or policy.

Therefore you must:

- reflect the findings from this analysis in a 'Due Regard Record' (template available), and attach it as an appendix to your report. The Record can be updated as your policy or service changes develop, and it exists as a log of evidence of due regard;
- Include this equality information in your verbal report to agenda planning groups or directly to portfolio holders and other decision making groups.

### **Your summary of equality analysis must include the following information:**

- if this policy, service change or withdrawal is relevant to equality, and if not, why not;
- the evidence base (information / data / research / feedback / consultation) you used to help you understand the impact of what you are doing or are proposing to do on people with protected characteristics;
- what the evidence base (information / data / research / feedback / consultation) told you about people with protected characteristics;
- what you found when you used that evidence base to assess the impact on people with the protected characteristics;
- whether or not your policy or service changes could help to advance quality of opportunity for people with any of the protected characteristics;
- whether or not your policy or service changes could help to foster good relations between communities.

# Epping Forest District Council

## Local Code of Governance

### Introduction

1. Epping Forest District Council has agreed a Code of Corporate Governance which reflects the key components set out within a framework produced in April 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled “Delivering Good Governance in Local Government” (the framework).
2. Corporate governance is the system by which local authorities direct and control their functions and relate to their communities. It is essential that the Council meets the highest standards and that their governance arrangements are demonstrably sound.
3. The new Framework is intended to help the Council to review and demonstrate that its approach to governance ensures that resources are directed in accordance with agreed policy and priorities and there is effective decision making and clear accountability to the public.
4. Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 also require the Council to conduct an annual review of the effectiveness of its system of internal control which is published with its Statement of Accounts. This new code provides the framework for such annual reviews for the year 2016/17 onwards.

### Requirements of the framework

5. The Council is required to test their Governance structures against the principles contained in the framework by:
  - Reviewing existing governance arrangements
  - Having an up to date Code of Governance including its arrangements for ensuring ongoing effectiveness; and
  - Reporting annually on compliance with the code and how they have monitored the effectiveness of their arrangements
6. This Code sets out in tabular form the Council’s approach to governance and the arrangements it has in place against which annual reporting will take place. The Code tables also set out how the Councils arrangements comply with the core and sub-principles set out within the framework.

### The Core Principles

7. The framework defines the Core Principles. The Council will:
  - (1) behave with integrity, demonstrating a strong commitment to ethical values and respect the rule of law.
  - (2) ensure openness in its culture and engage comprehensively with stakeholders, citizens and service users.
  - (3) have a clear vision and defined desired outcome in terms of sustainable, social and environmental benefit.
  - (4) have in place interventions necessary to optimise the achievement of its intended outcomes.

- (5) develop its capacity and capability of its leadership and staff
- (6) manage its risk and performance through robust internal control and strong public finance management.
- (7) implement good practice in transparency, reporting and audit to deliver effective accountability.

8. Appendix 1 to this Code demonstrates the Council response to these Core Principles

### **Annual Reporting**

9. In accordance with the Framework, the Council will report annually on the extent to which they comply with this Code. This is currently within the Terms of Reference of the Audit and Governance Committee. This may change from time to time but reporting will be on an annual basis.

### **Key Policies in Corporate Governance**

10. The key policies and procedures that have been taken into account in the formulation of this Code are listed below:

The Council Constitution  
Corporate Plan 2016-2020  
Financial Regulations and Associated Guidance  
Treasury Management Policy  
Procurement Rules  
Scheme of Delegation  
Human Resource Policies  
Members/Officers Code of Conduct  
Confidential Reporting Policy (Whistle Blowing)  
Anti-Fraud Policy  
Risk Management Strategy  
Communication Strategy  
Consultation Strategy  
Health and Safety Policy  
Data Protection Policy



## How the Council meets the Core Principles

**1(a) Behaving with Integrity**

The Council does this by:

- Having in place an agreed Code of Conduct for members and staff which includes provisions that require a further perception test on members when acting in the public interest.
- Having in place well-structured and transparent decision making processes and delegation arrangements
- Reviewing and adopted the revised Nolan Principles of Standards in Public Life and annual standards training given to all members together with interest declarations at meetings
- Corporate Governance Group meeting on a monthly basis to consider governance and integrity issues
- Regularly review its Policies to ensure that they remain effective
- Regular meetings of Management Board (MB) and Cabinet Councillors (Cab) to ensure coherent political direction.
- Established staff procedures through HR; annual Performance and Development Reviews (PDR) for all staff, methods of appeal and disclosure forms for staff interests

**1(b) Demonstrating Strong Commitments to Ethical Values**

The Council does this by:

- Appointing Experienced Section 151 / Monitoring Officers with appropriate qualifications and seniority within the Council to promote ethical values
- Council appointing a Standards Committee with Independent Persons
- Established processes for quickly investigating complaint / ethical standards issues.
- Providing advice on ethical standards to Parish and Town Councils.
- A supported and effective whistleblowing policy.
- Promoting ethical values through standard contract documentation.

**1(c) Respecting the Rule of Law**

The Council does this by:

- A modern, up to date, Constitution that has been peer reviewed by Counsel
- Ensuring all decision making reports containing relevant legal constraints.

- Ensuring decisions are only taken after advice from appropriate officers.
- Section 151 / Monitoring Officers are part of report clearing process.
- Reporting breaches of legal / regulatory provisions through CGG and Audit and Governance Committee.

## **2(a) Openness**

The Council does this by:

- Responding to FOI (Freedom of Information) and data access requests in accordance with legal provision.
- Using open data standards in on-line data sites including spend and contract information
- Publishing an FOI publication scheme
- Publishing on-line and properly documenting all decisions taken by the executive.
- Maintaining a list of decisions due to be taken by the Cabinet including transparency / notice of those decisions to be taken in private session.
- Webcasting of all Executive, Audit, Planning and Overview & Scrutiny Committee meetings
- Maintaining an effective website
- Making publicly available agenda of and clear minuting of all meetings in accordance with statutory regulations.

## **2(b) Engaging comprehensively with institutional stakeholders**

The Council does this by:

- Developing formal partnerships / making arrangements where an effective business case can be demonstrated.
- Attending and participating in meetings with other local authorities under 'duty to cooperate'
- Engaging with local organisations by officer attendance / participation
- Appointing Members to other community organisations that request it.
- By monitoring and maintaining an effective record of the partnerships we participate in
- By providing effective 'critical friend' challenge through the Council's scrutiny processes.

## **2(c) Engaging with individual citizens and service users effectively**

The Council does this by:

- Having a consultation policy and plans
- Ensuring meaningful consultation takes place during key service changes.
- Ensuring statutory consultation processes are followed and consistently applied
- Using a combination of communication methods to engage with citizens
- Having clear compliment and complaint procedures
- Ensuring the Council and its Members take account of consultation in the context of its decision making and the financial impact on tax payers.

## **3. Defining outcomes in terms of sustainable economic, social and environmental benefits**

The Council does this by:

- A corporate plan that has a clear vision of the economic, social and environment of the district, with supporting business/service plans
- A draft local plan that supports the Councils vision
- That decision making takes account of these effects on its residents and paying due regard to the public sector equality duty
- By ensuring the Council provides fair access to the services it provides.
- Having an approved Green Charter and a supported multidisciplinary officer working party to discuss green issues.

## **4. Determining the interventions necessary to optimise the achievement of intended outcomes**

The Council does this by:

- Decision making processes that receive objective and rigorous analysis including involvement of the Monitoring Officer and the Section 151 Officer
- Processes that take account of service users when making decisions
- Retain control over preparation of strategic and operational plans
- Monitoring regimes for task and finish management
- A demonstrable corporate approach to project management
- An active plan for key objectives that is measurable
- Key Performance Indicators that are measurable / SMART and take account of Councils objectives

- Regular reviews of the Councils Medium Term Financial Plan against Council priorities
- A robust budget preparation process that reflects the Councils objectives and the medium term financial plan.

## **5. Developing the Councils capacity**

The Council does this by:

- That the Council operations, performance and use of its assets are reviewed regularly to ensure their effectiveness
- That appropriate benchmarking is used in assessing whether outcomes can be achieved
- Participate in partnerships where there is a sound business case that it will add value
- Having an effective workforce plan to enhance resource allocation
- Having clear systems of decision making and effective delegation schemes
- The Leader/ Chief Executive / Directors have clearly defined leadership roles
- Members and staff have appropriate induction processes, access to personal development appropriate to their roles, staff have annual PDR's and access to arrangements to maintain their health and wellbeing.

## **6 Managing Risk and Performance**

The Council does this by:

- Ensuring risk management is an integral part of the Councils activities and decision making
- Having robust and integrated risk management arrangements with regular and dynamic consultation of risk by Management Board and Senior Management Teams
- Clear responsibilities for managing individual risks and a Risk plan that allocates responsibility against each risk
- Ensuring Services / projects are effectively monitored at planning, specification, execution and post implementation stages by having a Transformation programme that is responsible for tracking projects.
- an effective Overview and Scrutiny function to provide constructive challenge on policy and performance
- Councillors receiving regular reports on Service / Council delivery plans
- Having counter fraud and anticorruption arrangements in place and an established Corporate Fraud Team and whistleblowing policy
- An effective Internal audit function to provide assurance on governance / risk management and control

- An Audit and Governance Committee that is independent of the Cabinet providing additional assurance with the power to ensure its recommendations are listened to and acted upon
- Having effective arrangements in place for the safe management of data particularly data sharing with other bodies and a designated data protection officer.
- Effective financial management systems that include management of financial risks.

## **7 Transparency, reporting and auditing**

The Council does this by:

- Having a defined process to ensure that reports for the public / stakeholders are fair, balanced and easy to access and understandable for the audience
- Reporting regularly on performance and on use of resources
- Requiring managers to produce annual assurance statements
- Ensuring that Management and Members have clear lines of responsibility for the performance results
- Preparing an annual governance statement on the robustness of this framework
- Having processes to ensure external / internal audit recommendations are acted upon / responded to by managers and the Council
- Having effective internal audit and annual audit programs that are accessible for member scrutiny and tracked subsequently.

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## ***Report to the Audit and Governance Committee***



**Report reference:** **AGC-016-2016/17**  
**Date of meeting:** **06 February 2017**

**Epping Forest  
District Council**

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

**Subject:** **External Quality Assurance of Internal Audit against the Public Sector Internal Audit Standards.**

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

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

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### **Recommendations/Decisions Required:**

- (1) The Committee agrees that Internal Audit complies with the requirements of the Public Sector Internal Audit Standards; and**
- (2) That the Committee notes the actions proposed to enhance the Internal Audit service.**

### **Executive Summary:**

This report presents the results of an independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013. It also details how an action plan will be developed to addresses the recommendations for improvement noted during the review.

The overall conclusion of the report is that Internal Audit complies with the PSIAS and continues to provide an effective and efficient service to each Council (Epping Forest, Harlow and Broxbourne). There are some actions identified by the external assessor which would enhance service provision but these do not affect the overall level of compliance with the PSIAS, but do ensure Internal Audit continues to develop and demonstrate best practice.

### **Reasons for Proposed Decision:**

To demonstrate Internal Audit's compliance with the Public Sector Internal Audit Standards.

### **Other Options for Action:**

None.

### **Report:**

1. Section 1312 (External Assessments) of the 2016 Public Sector Internal Audit Standards (PSIAS), which came into force April 2013, states it is a mandatory requirement under the Standards that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team. This assessment is often referred to as an External Quality Assessment (EQA).

2. In line with the Standards the Audit Committee (via the Chairman) and the Chief Internal Auditor):

- discussed the form of the external assessment;
- discussed the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and
- agreed the scope of the external assessment (as well as with the external assessor).

3. This report presents the results from that independent assessment which had to be completed by 2017/18 at the very latest. It was agreed with the Audit Chairmen that it would be prudent to bring this forward in order to help shape the future of the shared service prior to Epping Forest joining it formally in April 2017. A single EQA was undertaken covering all three councils, as the same audit methodology and practices are employed across the three.

4. Following a procurement exercise, Gateway Assure was appointed to undertake the EQA. Gateway Assure provide specialist assurance services to a range of private, public and third sector clients in the UK.

#### Approach to the External Quality Assessment

5. The EQA took the assessor five days in November 2016 to complete and included the following elements:

- A self-assessment against the PSIAS requirements was completed by the Chief Internal Auditor and then a desk top review by the assessor, including core information as evidence such as procedural notes, audit charter, audit plans, example file and example report, and latest annual reports.
- The assessor met with each of Chief Internal Auditor's direct reports (the Section 151 Officers at Harlow and Broxbourne and the Monitoring Officer at Epping). They also conducted an electronic survey with the Audit Committee Chairmen.
- Visit to all three sites for the file review exercise, and to meet the team, with an exit interview at the end with the Chief Internal Auditor.
- Production and discussion of draft report in Powerpoint format with the Chief Internal Auditor to highlight matters in relation to the assessment against PSIAS, benchmark data regarding comparison with other internal audit provisions and best practice advice as well as ensuring factual accuracy.

6. The review assessed the Internal Audit function against three recognisable standards:

- **Resources** – business vision and mission, governance arrangements, recognition of standards, guidance, procedures and supervision, terms of engagement, ethics and business conduct.
- **Competency** –Charter, Internal Audit manual, planning and allocation of staffing, recruitment (numbers and skills), training (professional and technical), appraisal and development.



- **Delivery** – client engagement and relationships, directed led service, terms of engagement (audit/assignment brief), discussion of assurance and advisory opinions, reporting at assignment and strategic levels.

#### Summary of the External Quality Assessment (EQA) Review

7. The overall conclusion from the EQA is internal audit provision within the Councils of Broxbourne, Epping Forest and Harlow **complies** with the Public Sector Internal Audit Standards. The full report can be found as Appendix A.

8. Since 2013 Internal Audit has assessed its own compliance and reported this annually to the Audit Committees; being mostly compliant with the Standards with a few minor areas for enhancement.

9. The EQA outcome reported has been benchmarked against other provision in both the sector and the wider industry which shows that the Internal Audit team compares favourably with regard to its peers.

10. The introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairs as well as Executive Management.

11. A key theme featuring throughout the report is the need to develop aspects of the audit process to improve focus on the significant risks facing each Council in the achievement of its objectives. Internal Audit continues to move to an approach that reflects full recognition of risk factors.

12. The recommendations contained within the report are being used to produce an improvement Action Plan which will be presented to the March Audit and Governance Committee to enable time for consultation with the Internal Audit team and each Council to ensure a consistent approach.

#### **Resource Implications:**

The cost of the external assessment was a fixed fee and was shared equally by all three councils, met from the Internal Audit budget.

#### **Legal and Governance Implications:**

The 2016 Public Sector Internal Audit Standards (PSIAS) makes it a mandatory requirement that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Non-compliance with PSIAS could undermine the work of the internal audit function and could lead to scrutiny from external agencies, for example the Department for Communities and Local Government).

#### **Safer, Cleaner and Greener Implications:**

None.

#### **Consultation Undertaken:**

Audit Chairman and the lead Officer and from each Council were consulted as part of the EQA process.

**Background Papers:**

Public Sector Internal Audit Standards.

**Risk Management:**

An effective Internal Audit function has a pivotal role in providing assurances on the Council's internal control, governance and risk management arrangements. This EQA review helps demonstrate this.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix B to the report.

# Equality analysis report

## Step 1. About the policy, service change or withdrawal

Name of the policy, service or project: <i>be specific</i>	Internal Audit
Revised / new / withdrawal:	New
Intended aims / outcomes/ changes:	Audit and Governance Committee agrees that Internal Audit complies with the requirements of the Public Sector Internal Audit Standards.
Relationship with other policies / projects:	None
Name of senior manager for the policy / project:	Colleen O'Boyle
Name of policy / project manager:	Sarah Marsh

## Step 2. Decide if the policy, service change or withdrawal is equality relevant

Does the policy / project / service process involve, or have consequences for employees or other people? If yes, please state who will be affected. If yes, then the policy / project is equality relevant. <i>No</i>	If yes, state which protected groups:
If no, state your reasons for this decision. Go to step 7.  <i>The majority of Council policies and projects are equality relevant because they affect employees or our communities in some way.</i>	If no, state reasons for your decision: There is no impact on individuals or groups of individuals being a high level review of the Internal Audit function.

## Step 3. Gather evidence to inform the equality analysis

What evidence have you gathered to help you understand the impact of your policy or service change or withdrawal on people? What does your evidence say about the people with the protected characteristics? If there is no evidence available for any of the characteristics, please explain why this is the case, and your plans to obtain relevant evidence. Please refer to Factsheet 2 '*Sources of evidence for the protected characteristics*'

<i>Characteristic</i>	<i>Evidence (name of research, report, guidance, data source etc)</i>	<i>What does this evidence tell you about people with the protected characteristics?</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil		

partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Steps 4 & 5 Analyse the activity, policy or change (*The duty to eliminate unlawful discrimination*)**

Based on the evidence you have analysed, describe any actual or likely adverse impacts that may arise as a result of the policy decision. Where actual or likely adverse impacts have been identified, you should also state what actions will be taken to mitigate that negative impact, ie what can the Council do to minimise the negative consequences of its decision or action.

<i>Characteristic</i>	<i>Actual or likely adverse impacts identified</i>	<i>Actions that are already or will be taken to reduce the negative effects identified</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Step 6.**

##### **The duty to advance equality of opportunity**

Can the policy, service or project help to advance equality of opportunity in any way? If yes, provide details. If no, provide reasons. (*Note: not relevant to marriage and civil partnership*)

<i>Characteristic</i>	<i>Ways that this policy, service or project can advance equality of opportunity</i>	<i>Why this policy, service or project cannot help to advance equality of opportunity:</i>
Age		
Dependents / caring responsibilities		
Disability		

Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### The duty to foster good relations

Can the policy, service or project help to foster good relations in any way? If yes, provide details. If no, provide reasons. *(Note: not relevant to marriage and civil partnership)*

<i>Characteristic</i>	<i>How this policy, service or project can foster good relations:</i>	<i>Why this policy, service or project cannot help to foster good relations:</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### Step 7. Documentation and Authorisation

Summary of actions to be taken as a result of this analysis (add additional rows as required):	Name and job title of responsible officer	How and when progress against this action will be reported
1. None		
2.		
3.		

Name and job title of officer completing this analysis:	Sarah Marsh
Date of completion:	06/02/17
Name & job title of responsible officer: (If you have any doubts about the completeness or sufficiency of this equality analysis, advice and	Chief Internal Auditor

support are available from the Performance Improvement Unit)	
Date of authorisation:	
Date signed copy and electronic copy forwarded to PIU <a href="mailto:equality@eppingforestdc.gov.uk">equality@eppingforestdc.gov.uk</a>	

### **Step 8. Report your equality analysis to decision makers:**

Your findings from this analysis (and any previous analysis) must be made available to a decision making body when it is considering the relevant service or policy.

Therefore you must:

- reflect the findings from this analysis in a 'Due Regard Record' (template available), and attach it as an appendix to your report. The Record can be updated as your policy or service changes develop, and it exists as a log of evidence of due regard;
- Include this equality information in your verbal report to agenda planning groups or directly to portfolio holders and other decision making groups.

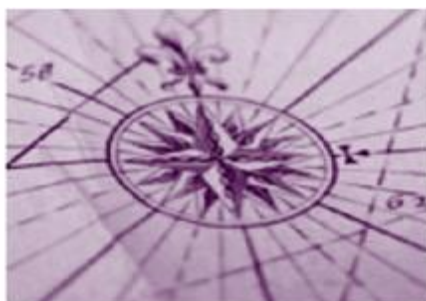
### **Your summary of equality analysis must include the following information:**

- if this policy, service change or withdrawal is relevant to equality, and if not, why not;
- the evidence base (information / data / research / feedback / consultation) you used to help you understand the impact of what you are doing or are proposing to do on people with protected characteristics;
- what the evidence base (information / data / research / feedback / consultation) told you about people with protected characteristics;
- what you found when you used that evidence base to assess the impact on people with the protected characteristics;
- whether or not your policy or service changes could help to advance quality of opportunity for people with any of the protected characteristics;
- whether or not your policy or service changes could help to foster good relations between communities.



# Broxbourne, Epping Harlow District Councils Internal Audit Shared Service

## External Quality Assessment November 2016



## Purpose of assignment

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The Internal Audit service for the Local Authorities of Broxbourne, Epping Forest and Harlow District Councils is provided by a shared service arrangement which under the leadership of Sarah Marsh as Chief Internal Auditor (CIA); the team have responded to the Public Sector Internal Audit Standards and have increasingly worked to a common methodology for delivery of internal audit services. Performance against the standard has been self assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review is to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The teams have significant experience, with a range of relevant qualifications and it has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level, this is established through the presence of an Internal Audit Charter which effectively defines the standards to which the shared service will carry out its work and is supported by a framework of standard templates and accepted processes to which the internal audit team work consistently.

The report reflects our opinion regarding the services currently provided measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authorities serviced by the Internal Audit Shared Service. Our observations and recommendations have been summarised within categories relating to the Resources, Competency, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The outcome has been benchmarked against other provision in both the sector and the wider industry which shows that the team compares favourably with regard to its peers.



## Executive summary

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The internal audit shared service has responded to the merger of the three teams in recent years and has moved towards a common approach that is consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The shared service does adopt a risk based approach through the development of its own risk assessment at a strategic planning level, at an assignment level through recognition of risk register content and in testing schedules although further development would be beneficial both in terms of recognising inherent risk and in terms of reflecting wider sector risk experience of the internal audit team within Audit Planning documents and Terms of Reference.

All three authorities with which the Shared Service is involved have developing risk management strategies and associated frameworks; as a consequence, it would be beneficial for internal audit to increasingly align its processes with those of the host authority as this would promote effective communication, structure audit work on 'what really matters' and use risk as the basis for reporting. In this respect we have recommended that future opinions and recommendations relate directly to established risk definitions within each authority.

Increasing transparency within the Council systems regarding the inherent risks being faced and upon those assurances available would allow internal audit to clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers, although different perceptions of risk appetite exist within the Councils involved.

The internal audit shared service has benefitted from a period of stability during which staff have remained consistent, and therefore a robust internal audit standard has been maintained and delivered using an experienced team. This has allowed the **service** to demonstrate compliance with the PSIAS.

Nevertheless with increasing pressures on Council budgets, significant change to service delivery and as a result increasing risk; there is a need for the division to continue to enhance its delivery through greater awareness of the relevance of risk to both the Council and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each Councils objectives.

### Compliance with PSIAS

#### § Resources

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

#### § Competency

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

#### § Delivery

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

## Grading of recommendations

- § The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit shared service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit division should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit division should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- § In grading our recommendations, we have considered the wider environment within the Council in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.





# Summary of good practice identified within EQA



Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with each Authority	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered.
1312	The IASS has conducted annual self assessment exercises resulting in an annual development plan which is agreed by the host authorities.	Demonstrates a process and commitment to continuous improvement.
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction with positive feedback from all officers and members who participated in the assessment.
2030	The IASS routinely assesses its training needs and discusses requirements with the Lead Officer Group	This represents a firm basis for the consideration of training and recruitment needs as well as the use of external support
2040	A detailed internal audit manual is in place	Provides for a consistent methodology, within the IASS this is delivered through a series of templates
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committee
2300	Audits are performed using an approach which is consistently applied	This supports a view that the internal audit team understand the standard processes, receive supervision and are effectively trained.
2400	Reports are clear and express opinions in a manner that is understood by stakeholders. Reports containing more significant recommendations are presented to operational management meetings where felt appropriate	Reports are produced on a timely basis, with summaries being produced for Audit Committee attention




## Resources

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action
1	No observations	

	Issue identified	Recommended action
1	<p><b>Governance and standards</b></p> <p>The Internal Audit Shared Service does not have an Internal Audit Manual which reflects the PSIAS. Instead the service has opted for a 'Process and Standards Map' supported by a series of standard templates which must be completed as part of the audit process. It is felt that understanding and status of internal audit would be enhanced if key standards within the PSIAS were fully cross referenced to these documents.</p>	<p>Understanding of and training in the application of the PSIAS would be enhanced by cross referencing templates to specific standards or by reflecting the key standards within the document 'IA Process and Standards Map'.</p> 
2	<p><b>Internal Audit Planning</b></p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; rather than reflecting wider risk issues and in particular use of different definitions of risk impact to those approved within the Council risk management strategy.</p> <p>There should be a direct and identified link between the internal audit plan content discussed with Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan, in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p> <p>The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council.</p>	<p>a. Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management.</p>  <p>b. The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance.</p>  <p>c. The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning, if the management objectives for the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> 

	Issue identified	Recommended action
1.	<p><b>Assignment Planning</b></p> <p>The service currently initiates each audit through engagement with management which provides for creation of an Audit Planning Document and a Terms of Reference which is then shared with management as an agreed basis for the audit.</p> <p>The assignment is then structured around control objectives and a framework of expected controls and was previously only loosely related to the risks which have been discussed with management. In a new process from 2016/17 each control objective is supported by an analysis of risks.</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee; this should include an assessment of the inherent risks in each area (regardless of whether these are specifically recorded with the risk management system)</p> <p>Terms of reference should be constructed based upon the principal risks identified and not control objectives. This will allow the audit to naturally reflect assurance regarding the risks identified within the 'Control Matrix'. An example template is provided at Appendix A.</p> 
2	<p><b>Focus on pre-identified controls</b></p> <p>Assignments are currently undertaken by reference to control objectives and corresponding controls; there is a tendency for these to reflect Key Lines of Enquiry (KLOE) based controls emanating from external audit practices and to a degree past audits rather than be generated to reflect the materiality of the current risk involved. The service has more recently commenced consideration of wider risk aspects relating to the area subject to review.</p>	<p>The use of risk as a basis for the control matrix will allow auditors to focus on the key controls and assurances which reflect the most material control risk to the area under review.</p> <p>The service should continue to develop pre-audit communication with management to focus on significant risk and key controls.</p> 

	Issue identified	Recommended action
3.	<p><b>Control Matrix templates</b></p> <p>Assignments commence with meetings with officers at which notes are recoded relating to how the system works.</p> <p>The control matrix then contains a record of the actual controls and there is a tendency for auditors to duplicate the notes referred to above and/or the controls in the section on findings.</p> <p>Further improvements to remove duplication are in place for 2016/17.</p>	<p>Recording the system in note form and the essential detail of interviews is regarded as good practice.</p> <p>When this is supported by actual controls and appropriate testing the findings column may be completed by the use of an opinion in the form of is the control adequate and effective (or not).</p> 
4	<p><b>Closing meetings</b></p> <p>Whilst those files reviewed all contained reference to a closure or exit meeting it was noticed that the record of the closing/exit meeting took different forms.</p> <p>There was evidence that the closure meeting also highlights good practice and this is considered good practice.</p>	<p>A consistent approach to the recording of the details discussed at the closing meeting and any agreements reached should be introduced.</p> 
5	<p><b>File structure</b></p> <p>A consistent file structure has been introduced across all areas of the Shared Service. We did observe that the reporting section was 'cluttered' and may be better organised to enable effective review and supervision.</p> <p>A file index form is used to record progress on each audit and generate the file structure.</p>	<p>It is suggested that the sub structure to the reporting file may be better organised as closing meeting, draft report and final report.</p> 



## Delivery continued

	Issue identified	Recommended action
6	<p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by each internal auditor, and reviewed by the Supervisor prior to release of the draft report and which include a grading of the recommendations being made.</p> <p>The definitions used by internal audit to support opinions have been revised between 2015/16 and 2016/17 financial years with the later year showing better reflection with each Authority's risk appetite and the definitions of impact risk.</p> <p>The basis for grading of recommendations should normally as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p> <p>At present the service prefers to retain a basis which provides flexibility for the CIA to determine the grading of the recommendations being made.</p>	<p>a) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits attention and perhaps support this with RAG rated colours linked to the Council's risk management system.</p> <p>These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting.</p> <p>b) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>


## Delivery continued

	Issue identified	Recommended action
7	<p><b><i>Audit Opinions - Overall opinions</i></b></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	<p>a) The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given.</li> </ul> <p>b) Reducing the levels of opinion to three at all clients would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.</p>

## Delivery continued

	Issue identified	Recommended action
8	<p><b>Delays in reporting</b></p> <p>The service produces a consistent quality of report albeit that internal audit reports may be considered 'lengthy' by comparison to developing practice in other sectors. In developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.</p> <p>We do however recognise that the section does not wish to move to an exceptions based methodology and that both Executive Management and Audit Committee reflection on current reporting is positive.</p> <p>It was observed that the time taken to deliver a final report was often extensive; this appear to relate to audit briefs being planned ahead of the commencement of fieldwork and the time taken to agree a draft report with management.</p>	<p>a) The service should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks.</p> <p>This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance; thereby reducing the overall time taken to report on assignments.</p> <p>b) Moving to reporting on significant risk may also increase ownership of draft reports by management and decrease response times; if this is not successful it is recommended that delays in response are brought to the attention of the Audit Committee.</p>

## Delivery continued

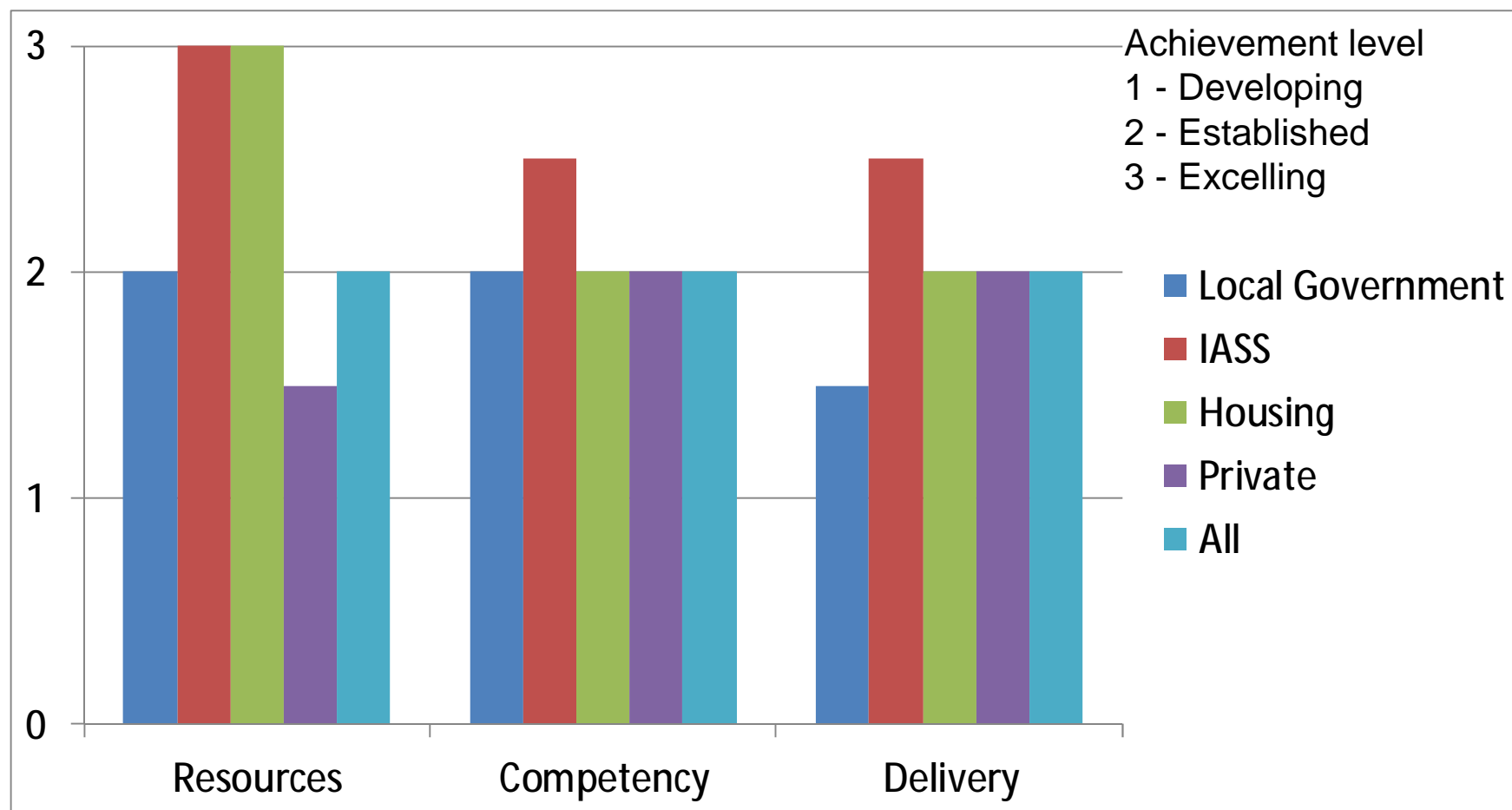
	Issue identified	Recommended action
9	<p><b>Annual Report</b></p> <p>The CIA produces an Annual Audit report which summarises the years work and includes analysis of performance. The opinion reflects</p> <p>“Based upon the results of work undertaken during the year, it is the Internal Audit Manager’s overall opinion that the Council has an adequate and effective governance, risk management and control framework”.</p> <p>The form required by the PSIAS requires a wider statement which <i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’</i>.</p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available so that the CIA is able to provide wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope.</p> <p>An example of the words which may be used has been provided in Appendix B.</p> 

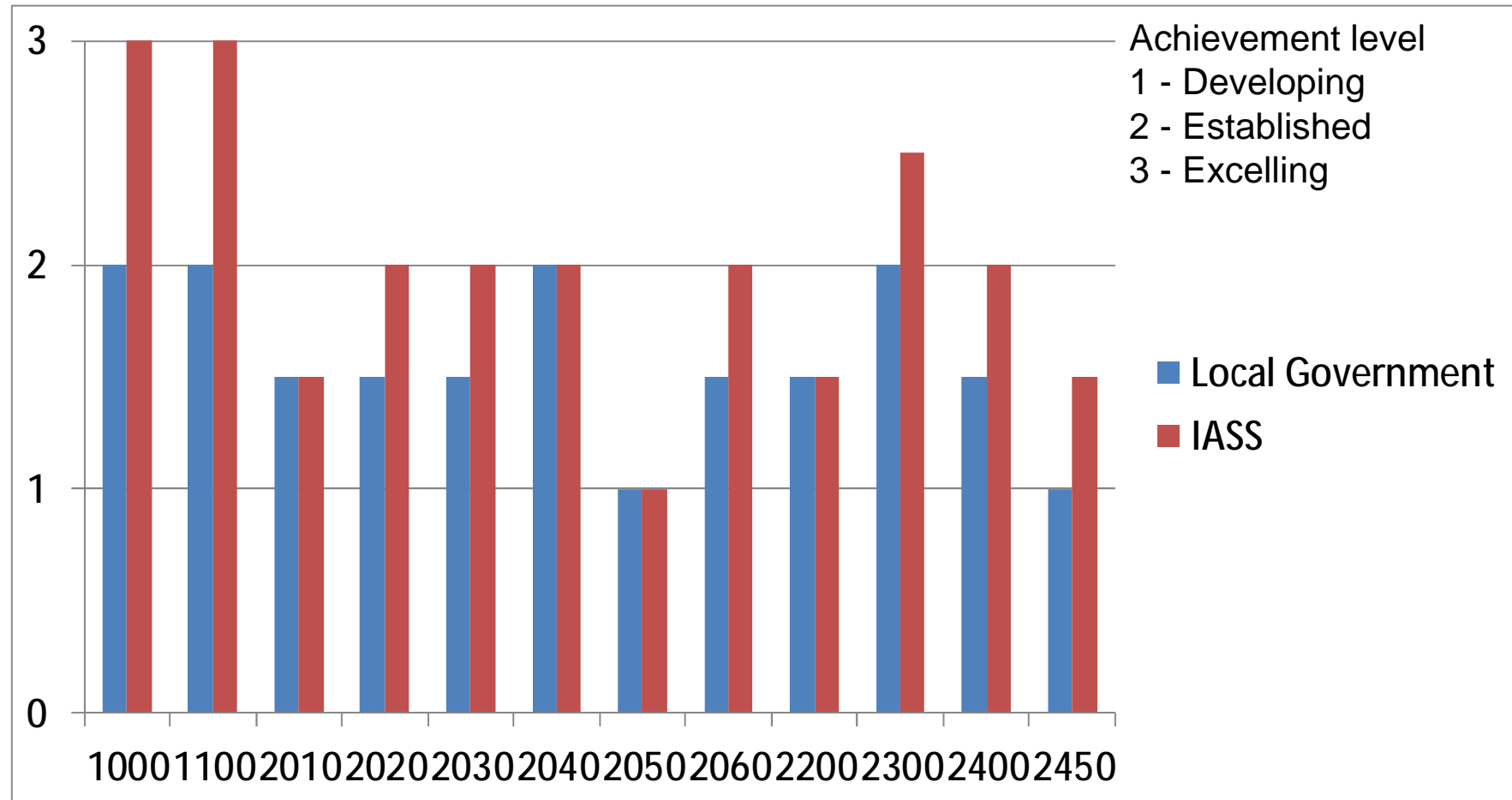
## Summary Audit Committee feedback

Question	A	B	C
Purpose	ü	ü	ü
Understanding of Council requirements	ü	ü	ü
Adequate assurance provided	ü	ü	ü
Independence with contact outside of meetings	ü	ü	ü
Status	ü	ü	ü
Experience, skills and effective communication	ü	ü	ü
Effective performance	ü	ü	ü
Effective planning and priorities	ü	ü	ü
Other relevant observations			
a) Councils benefit from the shared service. b) The team does well to cover the diverse range of services and therefore risks. c) Responds well to questions from Members. d) The team create good working relationships. e) Internal Audit has grasped the importance of following up recommendations to evidence implementation and regularly reports adherence to action plans. f) The shared service has improved the performance of the internal auditors and by some measure has raised their status and objectivity			

## Overall assessment

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.








# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

- § The internal audit provision within the Councils of Broxbourne, Epping Forest and Harlow complies with the expectations of the Public Sector Internal Audit Standards.
- § The introduction of the shared service has benefited the three Councils and receives positive feedback from both Audit Committee Chairs as well as Executive Management.
- § There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the Councils and assist in improving its profile and the subsequent feedback that is received from clients:
  - the service should continue to move to an approach that reflects full recognition of the risk factors recognised by the Councils both at a strategic planning level and when conducting assignments.
  - the use of opinions should be reviewed to better reflect the risk appetite of the Council and should reflect identification and escalation of recommendations graded as significant that match risk definitions graded as 'red' or 'amber' within the various risk management systems.
  - the Annual Report of the Chief Internal Auditor should be enhanced to reflect assurance related to awareness of the significant risks being faced by the Council.
- § The further development of risk management systems to reflect an Assurance Framework within each Council would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort should be co-ordinated in order to support the Governance Statements process.
- § Some revisions to the internal audit process may be beneficial in terms of improving efficiency and transparency of the assurance being provided.



**Assignment Brief**

Client			
Assignment			
Audit Year:		Audit Ref:	

Management Objective for the System			
Key Risks <small>Identified from the Risk Register, discussed with management &amp; Knowledge Base</small>	Key Controls (to mitigate risk) <small>To include expected controls, those identified through discussion with client and documentation of processes</small>	Conclusion <small>In terms of adequate and effective mitigation of the risk identified</small>	Report <small>Reference</small>
1			
2			
3			
4			
Audit Approach			

## Example wording for positive annual opinion

§ As the internal audit service provider to the organisation, I am required as the Head of Internal Audit to provide the organisation and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

§ In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the organisation's risk management, control and governance processes.

§ In assessing the level of assurance to be given, the following have been taken into account::

- § All audits undertaken during the year;
- § Any follow-up action taken in respect of audits from previous periods;
- § Significant recommendations not accepted by management or acted upon and the consequent risks;
- § The effects of any significant changes in the organisation's objectives or systems;
- § Matters arising from previous reports to the organisation;
- § Any limitations which may have been placed on the scope of internal audit;
- § The extent to which resources constraints may impinge on the Head of Internal Audit's ability to meet the full audit needs of the organisation;
- § What proportion of the organisation's audit need has been covered to date; and
- § The results of work performed by other assurance providers including the work of the financial statement auditors (if applicable).

§ We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the organisation's risk management, control and governance processes.

§ Overall in our opinion, based upon the reviews performed during the year, the organisation:

- § has adequate and effective risk management arrangements;
- § has adequate and effective governance; and
- § has adequate and effective control processes.

## ***Report to the Audit and Governance Committee***



**Epping Forest  
District Council**

**Report reference: C-017-2016/17**  
**Date of meeting: 6 February 2017**

**Portfolio: Governance and Development Management**

**Subject: Internal Audit Monitoring Report - November 2016 to February 2017.**

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

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

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### **Recommendations/Decisions Required:**

- (1) That the Committee agrees the suggestion to drop or defer a number of audits;**
- (2) That the Committee approves that no changes to the current Internal Audit Charter are required; and**
- (3) That the Committee approves a skills and knowledge analysis of its members be undertaken and to consider the outcome of the results at its next meeting.**

### **Executive Summary:**

This report updates members on the work completed by the Internal Audit service and Corporate Fraud Team since the November 2016 Audit and Governance Committee, reviews the Internal Audit Charter and proposes a method for undertaking a Committee skills and knowledge analysis. The report also gives an update of progress against the 2015/16 Annual Governance Statement action plan.

### **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:**

#### **2016/17 Internal Audit Plan**

1. Work has continued on the 2016/17 Audit Plan as detailed in Appendix 1. In order to deliver this year's plan within the resources available, the Audit and Governance Committee is requested to approve the deferral of the audits detailed below. Whether they will be included in next year's work plan will form part of the audit planning process for 2017/18 due to be reported to the March 2017 meeting of the Committee.

- Asset Management Strategy – Review of the Council's asset management

strategy has been stalled due a number of reasons including concentrating resources on the Local Plan, staff absences and restructuring within Forward Planning and Economic Development.

- Energy Management – this is a low risk area and Internal Audit has no particular internal control concerns. In addition, the Council continues to be proactive in this area including review of tariffs and undertaking energy saving initiatives such as solar panels which are producing savings.
- Equality and Diversity – The Council's approach to equality impact assessments is changing from January 2017 onwards, therefore, it is too soon to look at the process. Additional assurances are obtained through the reporting of the four equality objectives 2016-2010 to the Governance Select Committee.
- IT Helpdesk – it is too early to audit as waiting for the new system to settle in (House on the Hill), which was rolled out in September 2016. Early indications are that the system is working as expected.
- Anti-Social Behaviour (ASB) – this audit is to ensure there was a joined up approach to ASB across the Council (not just for our housing tenants); and not because there were any internal control concerns. On this basis this audit could be deferred.
- Mutual Exchanges – there has been proactive work in this area by Housing Options working in tandem with the Corporate Fraud Team to reduce the risk of customer fraud.
- Performance Management (Neighbourhoods) – this area has been covered in part through the waste management and car parking audits.

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 some 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 2016/17. This will be kept under constant review in conjunction with the Corporate Governance Group.

3. Audit staff are working across all three Councils in the partnership, thereby sharing best practice and expertise, and increasing the resilience of the team. This should ensure 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.

#### Internal Audit Reports

4. The following three reports (all awarded substantial assurance) have been issued since the Committee received its last update in November 2016:

- **Treasury Management** – This audit sought to add value by looking in more depth at strategic, reporting and scrutiny aspects of treasury management, in addition to operational key controls, and to compare these with Broxbourne and Harlow Councils in order to identify and share good practice. It was found that strong operational controls are in place to ensure that the Council's assets are protected, while providing adequate liquidity and yield to support the Council's activities. Comprehensive monitoring and reporting ensures that the Council's treasury management strategy is adhered to. There is also robust independent

scrutiny of treasury management strategy and performance which fully meets the requirements of the CIPFA Code. The audit identified the following areas of good practice at EFDC, which were shared with other Councils:

- clear definition and exercise of the scrutiny function, including co-opting members with appropriate financial expertise; and
  - dedicated covering reports for the Audit and Governance Committee which enhance scrutiny by encouraging members to explicitly consider whether the treasury management strategy addresses the key risks to the Council.
- **Housing Health and Safety – Gas Safety** – The main focus of this audit was to review the processes in place for monitoring annual gas safety checks, including the systems around the identification of overdue checks and checks for new tenancies. The audit found that there are robust controls in place which ensure that the Council's housing stock, homeless hostels and sheltered accommodation are being gas safety checked annually in line with Gas Safety (Installation and Use) Regulations 1998. The audit identified that there is comprehensive monitoring and reporting along with frequent contact with the Contractors which ensures that the Council's Gas Safety Policy is adhered to.
  - **Waste Management** – This audit focussed on the contract management and performance monitoring processes in relation to the waste management contract. It included a review of the role and responsibilities of the Council and the contractor, and arrangements for the supply and delivery of waste containers. The audit did not examine the systems relating to recycling. Overall, the waste management contract with Biffa is well managed. There are robust processes for managing the delivery of the contract and monitoring contractor performance. The audit has highlighted a need for procedures to be documented for business continuity purposes, and risk management processes need to be formalised to ensure there is visibility that risks regarding the contract have been appropriately identified and managed.

#### Recommendation Tracker

5. Members are reminded that the new audit recommendation priority ratings approved in March 2016 are being used for all reports from 2016/17. The new priority ratings are set out in table 1 below:

Table 1. New audit recommendation priority ratings

Recommendation priority ratings from 2016/17	Recommendation priority ratings pre 2016/17
High	1
Medium	2
Low	3

6. The Audit and Governance Committee will continue to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of whether they are overdue or not.

7. The current tracker (Appendix 2) contains four medium priority recommendations and one low priority recommendation which have passed their due dates. Regular monitoring of these recommendations demonstrates that, although they have not been completed by the original implementation dates, progress continues to be made on all of these.

8. The high priority recommendation relating to the development and implementation of an action plan to address health and safety issues identified at Townmead Depot, which was previously reported to the committee, has now been completed. Further work has been carried out as detailed in the tracker in Appendix 2.

Table 2. Summary of tracker as at 25 January 2017

Recommendation type	Number (as at January 2017)
High (Priority 1) not passed its due date	0
High (Priority 1) passed its due date	0
Medium (Priority 2) passed its due date	4
Low (Priority 3) passed its due date	1

#### Other Internal Audit Activities

9. Internal Audit is represented on a number of business groups and project teams in order to provide advice and guidance. Project teams include:

- **Programme and Project Management** – Internal Audit has attended the monthly project team meetings and the different system demonstrations to advise in the development of appropriate Council-wide project management processes. A number of audits highlighted the need for a consistent methodology to be applied across the Authority, and project management has been identified as an improvement area in the Annual Governance Statement.
- **Corporate and Business Planning** – Internal Audit has attended the project meetings to provide advice on business planning processes. The Chief Internal Auditor has shared ideas and good practice from the other authorities in the Internal Audit partnership which has led to streamlining processes.
- **Electronic invoicing** – Internal Audit has advised on the controls around the implementation of electronic invoicing and the impact on the purchase ordering and accounting systems. Further advice has been given on appropriate methods for rolling out electronic invoicing across the Authority.
- **Information Management** – There is a need for the Authority to introduce a Council-wide Information Asset Register ahead of the EU General Data Protection Regulations which are due to come into force in 2018. Internal Audit is assisting in the design and implementation of the Register and advising on policies and procedures relating to information management. This work replaces the proposed audit on data retention and disposals.

10. Internal Audit has been engaged on a fee basis to review a Parish Council's financial records and help them assess any control weaknesses within current systems.

#### National Fraud Initiative

11. The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. Internal Audit continues to co-ordinate the extraction and uploading of the Council's data in relation to NFI, in addition to reviewing and co-ordinating the action to be taken on data matches identified. The relevant 2016/17 data has been uploaded to the NFI



website and data matches will be received in late January/ February 2017.

12. Internal Audit and the Corporate Fraud Team work together to assess the nature of the data matches and to prioritise and further investigate any matches that may warrant it. Priority is given to areas of potential fraud that may have a high direct impact on the Council (financial, reputational etc.) including any data matches involving Council staff and Members. A number of successful investigations have been undertaken following data matches obtained from the NFI, including a recent issue involving an EFDC employee who was identified as having outside employment. This investigation highlighted a number of anomalies (such as incorrect timekeeping and abuse of the Council's email system) which resulted in disciplinary action being taken and the employee being dismissed for gross misconduct.

#### Internal Audit Shared Service

13. The Chief Internal Auditor continues to oversee the delivery of Internal Audit services for Epping Forest District Council as well as Broxbourne and Harlow Councils, with the cost of the post being shared equally.

14. A formal shared service between the three Councils, with Broxbourne being the host authority, is on target to commence 1 April 2017 following Cabinet approval in December 2016. The Council's internal audit team (one Senior Auditor and two Auditors) will transfer, under TUPE, to Broxbourne Council.

15. The shared service will comprise of a Head of Internal Audit, three Senior Auditors and three Auditors. A recruitment process is currently in progress as one of the Senior Auditors from Broxbourne has left.

#### External Quality Assessment (EQA) and Internal Audit Charter Review

16. Each year the Internal Audit Charter is reviewed to ensure it remains up to date and relevant. The Charter sets out the purpose, authority and responsibility of Internal Audit. This was last undertaken and presented to the Audit and Governance Committee in November 2015.

17. It was agreed at the November 2016 meeting to delay this year's annual review until the outcomes from the independent External Quality Assessment (EQA) was known. A paper on the EQA forms part of the agenda elsewhere and the EQA determined that the Internal Audit function was compliant with the Public Sector Internal Audit Standards. Part of the EQA process included a review of the current Internal Audit Charter (Appendix 3) and no deficiencies or enhancements required were noted by the assessor. On this basis no changes to the current Internal Audit Charter are required (except the date on the cover).

#### Corporate Fraud Team

18. Since the last update, a further six Right to Buy applications have been stopped or withdrawn following Corporate Fraud Team intervention. The total discount saved as a result of this is approximately £467,400 and the value of retained rent revenue streams is around £275,184. In addition, another four properties have been recovered as a result of fraud intervention, resulting in a saving of approximately £72,000.

19. The Corporate Fraud Team has stopped a housing application due to the discovery of false/misleading information.

20. The Team is currently engaged in a number of criminal investigations including active money laundering investigations. Three criminal prosecutions are being heard in January and

February 2017, each involving Proceeds of Crime Act (POCA) proceedings, currently estimated to be around £287,000 if successful.

21. The Corporate Fraud Team is conducting a money laundering case, involving planning fraud, on behalf of Broxbourne Borough Council.

22. The Team hosted their third Eastern Corporate Fraud Group (ECFG) on 26 January 2017. The aim of the group, which is open to corporate fraud investigators from all Eastern region councils, is to promote professional standards and share good practice.

#### Audit and Governance Committee Skills and Knowledge Analysis

21. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are core areas of knowledge that committee members will need to acquire through training or briefings.

22. At its November 2016 meeting the Audit and Governance Committee agreed it would be beneficial for the committee to evaluate its overall knowledge and skills, which in turn can be used to guide members on their training needs.

23. A suggested template to collate this information is attached as Appendix 4, which makes a distinction between core areas of knowledge that all committee members should seek to acquire and a range of specialisms that can add value to the committee. If approved the Chief Internal Auditor would circulate the checklist and collate responses with an anonymised summary presented at the 27 March 2017 Audit and Governance Committee meeting.

#### Review of Progress against the Significant Issues Identified in the 2015/16 Annual Governance Statement

24. In June 2016, the Audit and Governance Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts. The AGS outlines the proposed actions to be taken to deal with significant governance issues identified. The Corporate Governance Group monitors the actions set out in the AGS on a regular basis. The progress made to date on addressing the issues identified for improvement during 2016/17 is shown in table 3.

Table 3. Areas for improvement or monitoring during 2016/17

No.	Issue	Management response	Progress at February 2017
1	<p><b>Procurement Rules</b></p> <p>A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders. These had developed over time and were difficult to follow.</p> <p>On 26 April 2016 Council approved the new Procurement Rules, which replaced the Council's previous Contract Standing Orders. These provide a</p>	<p>Members of staff are currently being trained on the Council's new Procurement Rules and mechanisms are being developed to ensure compliance with these.</p>	<p>Training sessions on the Council's new Procurement Rules have been carried out. The Procurement Rules and supporting guidance have been published on the intranet.</p> <p>Any significant control failings will be reported in the Chief Internal Auditor's annual report which</p>

	more flexible approach and are more responsive to the current and future procurement needs of the Council.		will be presented to the July 2017 Audit and Governance Committee.
2	<b>Corporate Policies</b> A need to raise awareness of, and communicate changes to, corporate policies e.g. Whistleblowing Policy and Officer Code of Conduct was a common theme coming out of this years' Service Assurance Statements.	A review of the Council's anti-fraud and corruption framework will be spearheaded by the Corporate Fraud Team this year and will include a review of the Council's Whistleblowing Policy and Officer Code of Conduct; the results of which will be promulgated to staff.	The Corporate Fraud Team is in the process of reviewing and updating anti-fraud policies. These will be presented at March 2017 Audit and Governance Committee
3	<b>Project Management</b> Service Assurance Statements also identified a need to develop project management processes and provide training in this area.	A Project and Programme Management project team has been set up, sponsored by the Chief Executive, and is meeting regularly to address this issue.	The Programme and Project Management project group continues to meet monthly and is prototyping a potential project management system.

**Resource Implications:**

Within the report.

**Legal and Governance Implications:**

None.

**Safer, Cleaner and Greener Implications:**

None.

**Consultation Undertaken:**

Corporate Governance Group.

**Background Papers:**

2016/17 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.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 5 to the report.

# Equality analysis report

## Step 1. About the policy, service change or withdrawal

Name of the policy, service or project: <i>be specific</i>	Internal Audit
Revised / new / withdrawal:	New
Intended aims / outcomes/ changes:	Update report to Audit and Governance Committee on the Internal Audit and Corporate Fraud service, seeking agreement to defer a number of audits, review the Internal Audit Charter and for the committee to undertake a Skills and Knowledge analysis.
Relationship with other policies / projects:	None
Name of senior manager for the policy / project:	Colleen O'Boyle
Name of policy / project manager:	Sarah Marsh

## Step 2. Decide if the policy, service change or withdrawal is equality relevant

Does the policy / project / service process involve, or have consequences for employees or other people? If yes, please state who will be affected. If yes, then the policy / project is equality relevant. <i>No</i>	If yes, state which protected groups:
If no, state your reasons for this decision. Go to step 7.  <i>The majority of Council policies and projects are equality relevant because they affect employees or our communities in some way.</i>	If no, state reasons for your decision: The recommendations affect the operational delivery of the Internal Audit service and will help improve the effectiveness of the Audit and Governance Committee; individuals are not being targeted.

## Step 3. Gather evidence to inform the equality analysis

What evidence have you gathered to help you understand the impact of your policy or service change or withdrawal on people? What does your evidence say about the people with the protected characteristics? If there is no evidence available for any of the characteristics, please explain why this is the case, and your plans to obtain relevant evidence. Please refer to Factsheet 2 '*Sources of evidence for the protected characteristics*'

<i>Characteristic</i>	<i>Evidence (name of research, report, guidance, data source etc)</i>	<i>What does this evidence tell you about people with the protected characteristics?</i>
Age		
Dependents / caring responsibilities		

Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Steps 4 & 5 Analyse the activity, policy or change (*The duty to eliminate unlawful discrimination*)**

Based on the evidence you have analysed, describe any actual or likely adverse impacts that may arise as a result of the policy decision. Where actual or likely adverse impacts have been identified, you should also state what actions will be taken to mitigate that negative impact, ie what can the Council do to minimise the negative consequences of its decision or action.

<i>Characteristic</i>	<i>Actual or likely adverse impacts identified</i>	<i>Actions that are already or will be taken to reduce the negative effects identified</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

#### **Step 6.**

##### **The duty to advance equality of opportunity**

Can the policy, service or project help to advance equality of opportunity in any way? If yes, provide details. If no, provide reasons. (*Note: not relevant to marriage and civil partnership*)

<i>Characteristic</i>	<i>Ways that this policy, service or project can advance equality of opportunity</i>	<i>Why this policy, service or project cannot help to advance equality of opportunity:</i>

Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### The duty to foster good relations

Can the policy, service or project help to foster good relations in any way? If yes, provide details. If no, provide reasons. (*Note: not relevant to marriage and civil partnership*)

<i>Characteristic</i>	<i>How this policy, service or project can foster good relations:</i>	<i>Why this policy, service or project cannot help to foster good relations:</i>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### Step 7. Documentation and Authorisation

Summary of actions to be taken as a result of this analysis (add additional rows as required):	Name and job title of responsible officer	How and when progress against this action will be reported
1. None		
2.		
3.		

Name and job title of officer completing this analysis:	Sarah Marsh
Date of completion:	06/02/17
Name & job title of responsible officer: (If you have any doubts about the completeness or sufficiency of this equality analysis, advice and support are available from the Performance Improvement Unit)	Chief Internal Auditor
Date of authorisation:	
Date signed copy and electronic copy forwarded to PIU <a href="mailto:equality@eppingforestdc.gov.uk">equality@eppingforestdc.gov.uk</a>	

### **Step 8. Report your equality analysis to decision makers:**

Your findings from this analysis (and any previous analysis) must be made available to a decision making body when it is considering the relevant service or policy.

Therefore you must:

- reflect the findings from this analysis in a 'Due Regard Record' (template available), and attach it as an appendix to your report. The Record can be updated as your policy or service changes develop, and it exists as a log of evidence of due regard;
- Include this equality information in your verbal report to agenda planning groups or directly to portfolio holders and other decision making groups.

### **Your summary of equality analysis must include the following information:**

- if this policy, service change or withdrawal is relevant to equality, and if not, why not;
- the evidence base (information / data / research / feedback / consultation) you used to help you understand the impact of what you are doing or are proposing to do on people with protected characteristics;
- what the evidence base (information / data / research / feedback / consultation) told you about people with protected characteristics;
- what you found when you used that evidence base to assess the impact on people with the protected characteristics;
- whether or not your policy or service changes could help to advance quality of opportunity for people with any of the protected characteristics;
- whether or not your policy or service changes could help to foster good relations between communities.



	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High Priority Recs	Medium Priority Recs	Low Priority Recs
Quarter 1 to 3										
Conflicts of interest	Governance	10	Final Report	n	n	n	Satisfactory	0	2	0
Depot Health & Safety	Neighbourhoods	12	Final Report	n	n	n	Limited	1	1	0
PLs - sickness absence (new audit)	Resources	6	Final Report	n	n	n	N/A	0	0	0
Corporate Procurement	Resources	15	Final Report	n	n	n	Satisfactory	0	1	1
Car Parking	Neighbourhoods	10	Final Report	n	n	n	Satisfactory	0	2	0
Cash and Banking	Resources	12	Final Report	n	n	n	Satisfactory	0	0	1
Housing Health & Safety - Gas Safety	Communities	12	Final Report	n	n	n	Satisfactory	0	1	1
Waste Management	Neighbourhoods	10	Final Report	n	n	n	Substantial	0	2	2
Treasury Management	Resources	10	Final Report	n	n	n	Satisfactory	0	0	1
Grants to Voluntary Organisations	Communities	8	In Progress	n						
Housing Voids	Communities	10	In Progress	n						
IT Disaster recovery	Resources	10	In Progress	n						
Quarter 4										
Electoral Registration	Governance	10	In progress							
Joint Working - Community Safety	Neighbourhoods	10	Scoping							
Planning Application Processes	Governance	8								
Enforcement	Neighbourhoods	10								
Project - Langston Road follow up	Neighbourhoods	5								
Project - New Homes	Communities	12								
Safeguarding	Communities	12								
Housing Rents follow up	Communities	5								
Payroll	Key Financial Control	12								
Business Rates follow up	Key Financial Control	5								
Council Tax follow up	Key Financial Control	5								
Recruitment and Selection	Resources	10								
Contract Management	Corporate	15								

Internal Audit work rather than an audit											
Data Retention and Disposals	Corporate	15	In Progress	n							
Project - Transformation	Corporate	6	In Progress	n							
E-invoices	Resources	6	In Progress	n							
Defer/cancel subject to approval											
Asset Management Strategy	Neighbourhoods	10									
Energy Management vfm	Corporate	10									
Equality and Diversity	Governance	12									
IT Helpdesk	Resources	8									
Antisocial Behaviour	Communities	12									
Mutual Exchanges	Communities	8									
Performance Management - Neighbourhoods	Neighbourhoods	12									
									1	9	6

# EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 17 January 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<b>Audit Recommendations 2015/16</b>									
<b>Grounds Maintenance</b> Report No. 755 December 2015  <div>Page 67</div>	2	Ensure there is adequate staff resilience to ensure there is not too much reliance on the Finance Officer. This could be achieved by ensuring someone else has been trained and there are documented procedures.	2	It is recognised the work of the GM technical support team form an essential part of the Service and that many of the processes and systems associated with their role are unique to this Service. As part of the GM 'workforce planning' this potential risk was identified and as a consequence, the team have been documenting the various key tasks & procedures. Therefore in agreement with the audit findings, this work will continue in order to help safeguard business continuity. Succession planning is also something management will consider to minimise potential risk to service provision.	General Manager (Neighbourhoods)	31/12/16	30/09/17	Nov 16: The Grounds Maintenance Technical Team have been busy documenting their core duties since the audit and much progress has been made with numerous processes now set out in a 'walkthrough' type format. An office move has caused some delays to completing the recommendation and therefore an extension has been requested and agreed.  Jan 17: Work is continuing to address this. Numerous financial and admin processes associated with the work of the GM support team have now been catalogued. The GM Service is currently in the process of recruiting a new Tech/Finance officer who will be trained in all aspects of this work area in order to build further resilience into the section.	Overdue
<b>Email, Internet and Telephone Usage</b> Report No. 779 May 2016	2	Monthly reports of telephone usage should be produced by ICT and forwarded to the Director of Resources for monitoring once the new SIP trunks are in place.	2	Telephone usage will be reported and monitored once the new SIP trunks are in place.	Assistant Director ICT & Facilities Management/ Director of Resources	31/12/16	01/04/17	Oct 16: The telephone reports cannot be produced until SIP trunking is in place. We are completely reliant on third party suppliers to install SIP. The 31st December date is now unlikely to be achieved. The end of the current financial year is the supplier's current estimated completion date.  Nov 16: In progress –	Overdue

# EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 17 January 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
								Implementation date extended.  Jan 17: The groundwork for SIP is nearing completion. Implementation of SIP will mean some downtime for the Councils phone system out of hours. As the Council has out of hour's telephone services, the ICT Operations Manager is discussing with the Assistant Director (Housing Property & Development - the lead officer for out of hour's services), as to a suitable implementation date.	
<b>Sundry Debtors Audit</b> Report No. 769 June 2016	1	The Sundry Income and Debt Policy should be reviewed and updated to reflect the current debt collection procedures. In addition, the policy/process for refunds should be documented within the Policy.	2	Agreed. The Policy needs updating and expanding to cover refunds.	Risk Management & Insurance Officer	31/10/16	01/04/17	Sept 16: The recommendation will be incorporated together with other amendments previously agreed by Management Board into the policy and submit to the Management Board via the next Corporate Debt Working Group meeting.  Oct 16: The next Corporate Debt Working Group meeting will take place in the next couple of weeks where the recommendation will be included (as mentioned above).  Nov 16: The planned Corporate Debt Working Group meeting was cancelled. The recommendation will be included in the next meeting on 20/12/16.  Jan 17: The Sundry Income and Debt Policy was discussed in the Corporate Debt Working Group in December. The policy will be reviewed in Quarter 4.	Overdue

# EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 17 January 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Audit Recommendations 2016/17									
<b>HR Sickness Absence Performance Indicator</b> Report No. 04.16/17 October 2016	5	Written guidance A brief 'how to' guide should be drafted to: <ul style="list-style-type: none"> <li>• Explain current procedures for producing RES001</li> <li>• Explain key parts of the calculation not covered by the corporate definition (e.g. simple average for quarterly FTE staff numbers, the sum of staff and leavers sickness data)</li> <li>• Act as a reference guide in case of absence of key staff (and so improve resilience)</li> <li>• Act as a reference guide for the review (ensuring review is robust with the reviewer fully understanding the process)</li> <li>• Replace sections of the obsolete Management Information Manual.</li> </ul>	Low	Assistant Director to write out in full their guidance notes.	Assistant Director (Human Resources)  HR Manager  Workforce Data Analyst	31/12/16	31/03/17	Jan 17: Most of the details have been addressed and are included in the RES001 submission, in the appropriate places, in detail. This includes all the method of calculation and all the actual figures and calculations.  The "how to" instructions will be completed after the transition to the new HR system currently being introduced is fully in use and training has been completed.	Overdue

# EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 17 January 2017

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<b>Off Street Car Park Income</b> Report No. 06.2016/17 November 2016  <div>Page 70</div>	1	Credit Card payments made in respect of pay and display car park charges should be reconciled at least monthly to the bank statements. The appropriate frequency of the reconciliations will be decided once the reconciliation process has been formalised.	Med	The Parking and Street Furniture Support Officer has met with the Payment Solutions Manager to discuss the way forward with the reconciliations. The Council is now able to log into both the Credit Call and the bank systems to check the income received by the Council. A report of credit card payments from the ticket machines has been set up in order to perform the reconciliations. The Parking and Street Furniture Support Officer is developing the most appropriate method for the reconciliations with the Customer Services Officer.	Parking and Street Furniture Manager  Assistant Director Technical Services	01/01/17	31/03/17	Jan 17: Neighbourhoods Finance has reconciled the Chip and Pin income to date with the figures supplied by Credit Call. The Parking & Street Furniture Officer runs the Transaction report off the Metric system and the Customer Services Officer matches this with the Credit Call information.  The Customer Services Officer is waiting for Finance to provide income reports showing what the bank have paid us. The Customer Services Officer will then be able to reconcile what Credit call have processed and what the bank has paid us and in turn charged us.	Overdue
<b>Health and Safety - Townmead Depot</b> Report No. 05.16/17 September 2016	2	An action plan to address H&S failings identified in this audit should be drawn up and implemented. Regular reporting on progress being made with the action plan should be reported to Internal Audit and the Council's H&S Officer.	High	This is a cross directorate piece of work which will be coordinated and project managed by the Assistant Director (Technical Services) and require the support of the Safety Officer and Facilities Management for repairs and maintenance.	Director of Neighbourhoods  Assistant Director (Technical Services)	31/12/16		Nov 16: Several site visits have taken place, including officers from facilities and the safety officer, and discussions have taken place with Waltham Abbey Town Council on a way forward. Remedial work has taken place including putting in CCTV, minor repairs, tidying up and making secure the compound and introducing regular site visits  Under Facilities' 5 year planned preventative maintenance programme £75K has been allocated for security and safety works in 2017/18 including new	Complete

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Page 71								gates, refurbishment of the toilet facilities and improvement of the boundary fencing. It will be for the next financial year so no works this year. The Assistant Director (Technical Services) will be making another site visit next week and will review the works required, carry out inspections. The Assistant Director (Technical Services) will also be arranging a meeting with Waltham abbey town council to start discussion on the way forward.	
								Jan 17: The action plan is monitored by the Assistant Director Technical Services. Updates on each action are required on a monthly basis from all officers involved. The £75k allocated for works has now been allocated to this financial year (16/17).	
								Fire Risk Assessment – A quote for the risk assessment has been received and will be carried out on 1 February 2017.	
								Site inspections – Health and Safety inspections are being carried out monthly, the most recent one on 21 December 2016.	
								Safe storage of materials and equipment - Following the inspection, a skip is being arranged to remove general rubbish from the site.	
								Budget allocation for essential	

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								health and safety works – None of the £75k has yet been spent. The first task is to secure the site. Negotiations are underway with Waltham Abbey Town Council regarding the positioning of the perimeter fence before submitting the planning application. Other works will commence after the site has been secured.	



# INTERNAL AUDIT CHARTER

**Author:** Sarah Marsh

**Title:** Chief Internal Auditor

**Date:** February 2017



*Epping Forest District Council*

## **INTERNAL AUDIT CHARTER**

### **1. INTRODUCTION AND PURPOSE**

- 1.1 The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit within Epping Forest District Council (EFDC), and to outline the scope of internal audit work. The Charter will also be used to monitor the performance of the Internal Audit function.
- 1.2 The United Kingdom Internal Auditing Standards (UKPSIAS) define Internal Auditing as:  
  
*'An independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.*
- 1.3 Internal Audit work is conducted in accordance with the UKPSIAS and any specific codes and professional guidance including CIPFA's application note in relation to compliance with the UKPSIAS and the Institute of Internal Auditors' Practice Advisories, Practice Guides and Position Papers.

### **2. REVIEW OF THE AUDIT CHARTER**

- 2.1 This Charter will be subject to annual review by the Chief Internal Auditor, and any significant changes presented to the Audit and Governance Committee for approval.

### **3. ROLE OF INTERNAL AUDIT**

- 3.1 Within local government there is a statutory requirement for an Internal Audit function. The Accounts and Audit (England) Regulations 2011 require that a local authority 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.
- 3.2 In addition, the Council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 Officer relies, amongst other sources, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.
- 3.3 Internal Audit's activities and responsibilities are defined and approved by the Audit and Governance Committee, via this Charter, as part of their oversight role. The Chief Internal Auditor reports functionally to the Director of Governance. In recognising the unique and critical role of the Chief Internal Auditor, CIPFA's *Statement on the Role of the Head of Internal Audit (HIA)* sets out 5 key principles for delivering an effective internal audit function. Each of these 5 principles is underpinned by expected governance arrangements, core HIA responsibilities and personal and professional standards expected of the post holder. As part of the continuous assessment of the effectiveness of the Internal Audit function, these principles are benchmarked against current practices and reported accordingly.
- 3.4 Internal Audit's primary role is to assist the Council's management team, particularly the Chief Executive, the Chief Financial Officer/Section 151 Officer, the Monitoring Officer, and Directors in the effective discharge of their responsibilities. To this end, Internal Audit provides them with analyses, appraisals, recommendations, advice and information to enable effective control over the activities reviewed, including the Council's financial affairs.
- 3.5 Importantly, the Internal Audit Plan culminates in the Chief Auditor providing an annual audit opinion to Members and management on the overall adequacy and effectiveness of the Council's internal control environment which, in turn, informs the Annual Governance Statement. Internal Audit has a significant role / input into the production of the Annual Governance Statement (AGS) as part of the publication of the Annual Accounts.

- 3.6 Internal Audit has a role in understanding the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the systems of risk management and internal control operated by the Council.

#### **4. MISSION AND AIMS OF INTERNAL AUDIT**

- 4.1 The aims of Internal Audit are to: -

- Provide a high quality and effective audit service that is responsive to the needs and requirements of Members and management;
- Add value to the Council's systems by identifying areas for improvement and offering advice and assistance to Members and management to ensure effective systems of internal control;
- Assist the Council discharge its corporate governance requirements.

#### **5. RESPONSIBILITIES OF INTERNAL AUDIT**

- 5.1 Internal Audit is responsible for: -

- The examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal control processes.
- Compliance with significant policies and procedures established by management and Members.
- Conducting its work in accordance with UKPSIAS and associated codes of ethics and other guidance for the Professional Practice for Internal Auditing.
- Ensuring that it is appropriately resourced to be able to deliver the agreed Audit Plan.

- 5.2 The delivery of the Internal Audit function is predominantly via in-house resources supplemented where necessary by engaging external resources to cover for periodic shortfalls or, for example, to provide a specific expertise.

#### **6. INDEPENDENCE AND OBJECTIVITY**

- 6.1 Internal Audit will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective approach to its work.

- 6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. Internal Audit may, however, review systems under development and advise on appropriate controls without prejudicing its right to subsequently audit such systems.

- 6.3 The Chief Internal Auditor will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the Internal Audit activity.

#### **7. CONFLICTS OF INTEREST**

- 7.1 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

- 7.2 Each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment. All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake

any consultancy work will be prohibited from auditing those areas. Where possible audits are rotated within the team to avoid over-familiarity and complacency.

- 7.3 In any circumstances where a potential conflict of interest were to arise this would be reported and, where applicable, appropriate arrangements approved by the Director of Governance to avoid any compromise of internal audit independence.

## **8. STATUS OF INTERNAL AUDIT IN THE COUNCIL**

- 8.1 Internal Audit has direct access to senior management, the Audit and Governance Committee, the Chief Executive and the Chair of the Audit and Governance Committee. The Director of Resources as S151 Officer and the Audit and Governance Committee will jointly agree the level of Internal Audit resource to be deployed at the Council. The Chief Internal Auditor will communicate and interact directly with senior management and the Audit and Governance Committee, including between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit and Governance Committee, the Chief Internal Auditor will have unrestricted access to the Chief Executive and to the Chair of the Audit and Governance Committee.
- 8.2 For the purposes of the Internal Audit activity, the following groups are defined:

### **Audit and Governance Committee**

The Audit and Governance Committee is responsible for providing independent assurance to the Council of the adequacy of the risk management framework, associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit and Governance Committee is also responsible for oversight of the Internal Audit function, including:

- To agree the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- To receive an Annual Report from the Chief Internal Auditor.

### **Corporate Governance Group**

The Council's Corporate Governance Group provides leadership and direction for the Council. The Group is responsible for monitoring and reviewing the corporate governance framework including:

- The Council's constitution, including financial regulations, contract standing orders and officer delegation;
- the Code of Corporate Governance;
- the annual governance statement for inclusion in the council's statutory statement of accounts;
- risk management, including the corporate risk register;
- anti-fraud and anti-corruption policies and measures.

- 8.3 For line management purposes, the Chief Internal Auditor reports to the Director of Governance, who approves all decisions regarding the performance, evaluation, appointment, or removal of the Chief Internal Auditor, in consultation with the Audit and Governance Committee. The Director of Resources, as Section 151 Officer, should ensure an effective Internal Audit function is resourced and maintained.

- 8.4 The day to day operational management of the Internal Audit function lies with the Chief Internal Auditor who is accountable through the Director of Governance to the Audit and Governance Committee for standards of performance and the proper discharge of the audit function.
- 8.5 The Chief Internal Auditor is responsible for the preparation of the Annual Audit Plan, agreeing it with Members and the effective implementation of the Audit Plan. Prior to drawing up the Audit Plan, the Chief Internal Auditor will consult with Directors, Assistant Directors and Corporate Governance Group with regard to risks, concerns etc. and take account of any issues raised by them.

## **9. AUTHORITY AND ACCESS FOR INTERNAL AUDIT WORK**

- 9.1. Internal Audit, with strict regard to confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all Council records (paper and computerised), physical properties, IT systems and personnel pertinent to carrying out any engagement. Such access will be granted on demand and need not be subject to prior notice. However, Internal Audit will endeavour to give adequate and reasonable notice, where possible, when working on routine audit reviews.
- 9.2 Internal Audit also has free and unrestricted access to the Audit and Governance Committee and Senior management. Internal Audit examines and evaluates, on a risk focussed basis, the whole system of controls established by management, not just the controls over financial accounting and reporting, but all operational and management controls.

## **10. SCOPE**

- 10.1 The scope of Internal Audit work encompasses but is not restricted to the following: -
- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the Council's defined goals and objectives;
  - the extent of compliance with, relevance of, and financial effect of, policies, strategies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations;
  - the extent to which the assets and interests are acquired, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause;
  - the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
  - the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic aims;
  - the suitability of the organisation of the areas audited for carrying out their function, to ensure that services are provided in a way which is economical, efficient and effective;
  - the follow-up actions taken to implement recommendations made and remedy weaknesses identified by Internal Audit, ensuring that good practice is identified and widely communicated;
  - the operation of the Council's corporate governance and risk management arrangements.
- 10.2 Internal Audit may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Chief Internal Auditor in consultation with Director of Governance on a case by case basis.

## **11. PLANNING AND REPORTING**

- 11.1 A risk based approach is adopted in planning the work of the audit function. This involves a needs and risk assessment of all the activities carried out by the Council from which an Annual Plan is prepared. The type of audits covered include: -
- Key financial systems reviews
  - Systems/Operational Reviews – either high level assurance or full scope detailed reviews.
  - Proactive Anti-fraud work and fraud investigations are referred to the Corporate Fraud Team as appropriate.
  - Specialist Audits (for example, contract/computer/major projects)
  - Corporate governance support work
  - Audit Advice
- 11.2 The Chief Internal Auditor submits to Members for approval an Annual Internal Audit Plan, setting out the recommended scope of audit work in the period based upon risk assessment criteria. The Annual Plan is developed with reference to a longer term strategic outlook for Internal Audit work for the three year period, prepared in conjunction with management. The Audit Plan is a dynamic document, which is flexible and reactive to situations arising during the course of the period covered and hence may be subject to review and revision during the year.
- 11.3 In determining the Annual Internal Audit Plan and coverage, the Chief Internal Auditor takes into account several factors including the Council's risk management arrangements and other assurance and monitoring arrangements for achieving the Council's objectives. The allocation of resources is based upon the relative knowledge, skills, experience and any specialisms that may be required. The Chief Internal Auditor can also draw upon other parties to deliver internal work for example to meet "in-house" shortfalls arising from sickness, vacancies or to provide a particular specialism. If the Chief Internal Auditor considers that the audit resources available in any way limit the scope of Internal Audit or prejudice the ability of Internal Audit to deliver a service consistent with the standards expected, then those charged with the governance of the Council would be advised accordingly.
- 11.4. Internal Audit carry out the work, as agreed, report upon the outcome and findings, and make appropriate recommendations on the action to be taken as a result. Directors' response will include a timetable for anticipated completion of action to be taken. The reporting arrangements will include both individual and composite reports to Directors and the Corporate Governance Group and where appropriate to the Audit and Governance Committee, at the agreed intervals.
- 11.5 Internal Audit is responsible for appropriate follow up on engagement findings and recommendations and will report to the Audit and Governance Committee on the results.
- 11.6 Internal Audit will report to the Audit and Governance Committee, in accordance with the agreed arrangements, on the overall adequacy of the internal control system and major findings, recommendations and management actions. Any significant deviation from the approved Audit Plan will be communicated through the periodic activity reporting process.
- 11.7 Based upon its work, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit and Governance Committee and to the Corporate Governance Group, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures that Internal Audit plays a key role in providing assurance to the Audit and Governance Committee and the Corporate Governance Group on the effectiveness of the entire control environment.

## **12. FRAUD**

- 12.1 Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow fraud and corruption to take place and to any indicators that fraud and corruption may have occurred. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 12.2 It is individual service areas' responsibility to consider the risk and impact of fraud and to design and implement suitable safeguards to mitigate these risks. The role of Internal Audit in relation to countering fraud is to support services in minimising fraud-related risk. It does this in several ways including:
- Liaison and provide assistance to the Corporate Fraud Team, as part of the Internal Audit Function.
  - Developing and reviewing the Council's Anti-Fraud Strategy.
  - Maintaining a Fraud Response Plan.
  - Financial Regulations requiring all incidents of suspected or detected fraud to be notified to the Chief Internal Auditor.
  - Developing and maintaining data and intelligence networks with appropriate bodies including the Cabinet Office (NFI), Police, other Local Authorities and Government agencies.
- 12.3 Suspected or detected fraud should be notified to Internal Audit and the Section 151 Officer, who will decide on the most appropriate course of action and a decision taken as to who should lead any subsequent investigation, whether it is Internal Audit, the Corporate Fraud Team or service management, and whether to report to the police.

## **13. PERIODIC ASSESSMENT**

- 13.1 Internal Audit will, in conjunction with the Audit and Governance Committee, provide regular reports on its performance and effectiveness drawing upon both quantitative and qualitative measures including feedback from clients, adherence to professional standards and through the opinion of the external auditors. Furthermore, there will be mechanisms for quality control/continuous improvement in service delivery through such measures including internal self-assessments, peer reviews and independent external assessment, the latter to be conducted at least every 5 years.

## **14. RESPONSIBILITIES OF CORPORATE GOVERNANCE GROUP AND DIRECTORS**

- 14.1 The Council's Corporate Governance Group and Directors have responsibility for determining the scope of Internal Audit work, in relation to relevant professional standards / guidelines, and for deciding the action to be taken on the outcome of, or findings from, their work.
- 14.2 They also have a responsibility to ensure that the Internal Audit function has: -
- the support of management,
  - adequate resources; and
  - direct access and freedom to report to senior management and Members, including the Section 151 Officer, Monitoring Officer, Chief Executive and Cabinet / the relevant Committee.
- 14.3 The Corporate Governance Group and Directors also have primary responsibility for establishing and maintaining a proper and effective control environment and for managing risk, including proper accounting records and other management information for running the Council. In addition there is also a primary responsibility for the prevention and detection of fraud, including the prompt reporting to all relevant parties of any evidence or reasonable suspicion of an irregularity.

- 14.4 During the course of an audit, Directors and their staff will be required to cooperate fully with the auditor's requirements, including the completion of action plans, signing off audit reports and the timely implementation of specific and agreed recommendations made by Internal Audit.

**15. RELATIONSHIP WITH THE EXTERNAL AUDITORS / OTHER REGULATORY BODIES**

- 15.1 Internal Audit will consult and where appropriate work closely with others, particularly the external auditors, to minimise areas of duplication and to maximise the value obtained from the total audit resource. However, the work of Internal Audit will not be driven by external audit's own priorities.



## Knowledge and skills analysis for EFDC Audit Committee Members (February 2017)

Audit Committee members bring a range of knowledge and experiences that helps it perform collectively as a committee. This analysis will help evaluate the overall knowledge and skills of the Audit Committee and is based on the CIPFA 2013 Audit Committees practical guidance for Local Authorities and Police.

For each area please indicate your current knowledge/skills level.

<b>NAME:</b> (optional)				
<b>Knowledge area</b>	<b>Detail</b>	<b>Confident</b>	<b>Aware</b>	<b>Development appreciated</b>
<b>Core areas of knowledge</b>				
Council knowledge	Governance structures of the Council and decision-making processes. Council objectives and major functions.			
Audit Committee role and function	Understanding of the audit committee's role and place within the governance structures. Knowledge of the purpose and role of the audit committee			
Governance	Knowledge of the six principles of CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement.			
Internal Audit	Awareness of the Public Sector Internal Audit Standards and arrangements for delivering the internal audit service.			
Financial management and accounting	Awareness of the financial statements that a local authority must produce. Understanding of good financial management principles and the role of the chief financial officer'			
External Audit	Knowledge of the role and function of the external auditor and the key reports and assurances that they provide.			
Risk Management	Understanding of the principles of risk management and how they are applied within the Council.			
Anti-fraud	Knowledge of the principles of good fraud risk management and the Council's arrangements for tackling fraud.			
Values of good governance	Knowledge of the Seven principles of Public Life, the Council's			

	arrangements to uphold ethical standards for both members and staff and the Council's whistleblowing arrangements.			
<b>Range of specialisms that adds value to the Audit Committee</b>				
<b>Knowledge area</b>	<b>Details of supplementary knowledge</b>	<b>Skilled</b>	<b>Novice</b>	<b>Nil</b>
Accountancy	Qualification in accountancy			
Internal Audit	Qualification or experience within internal audit			
Risk management	Qualification or practical experience of applying risk management			
Governance and legal	Legal qualification or knowledge of specific areas of interest e.g. constitutional arrangements, data protection or contract law			
Service knowledge relevant to the functions of the Council	Direct experience of managing or working in a service area similar to that operated by the Council.			
	Please give details			
Programme and project management	Project management qualifications or practical knowledge of project management principles			
IT systems and IT governance	Knowledge gained from management or development work in IT.			

Please add here any other areas of expertise you bring to the committee not covered above.	
Other comments or feedback are welcome.	

Please return this form to the Chief Internal Auditor [smarsh@eppingforestdc.gov.uk](mailto:smarsh@eppingforestdc.gov.uk) by Friday 10 March 2017. Alternatively it can be posted to Sarah Marsh, Chief Internal Auditor, Epping Forest District Council, Civic Offices, High Street, Epping, CM16 4BZ.

An anonymised summary will be presented to the 27 March 2017 Audit and Governance Committee meeting.

## ***Report to the Audit & Governance Committee***



**Epping Forest  
District Council**

**Report reference:** **AGC-018-2016/17**

**Date of meeting:** **6 February 2017**

**Portfolio:** **Finance**

**Subject:** **Treasury Management Strategy Statement 2017/18**

**Responsible Officer:** **Bob Palmer** (01992 564279).

**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 2017/18; and

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

### **Executive Summary:**

The annual Treasury Management Strategy Statement report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the financial year 2017/18.

The risks associated with treasury management are highlighted within the report along with how these risks are being managed. The most significant change from the previous strategy is an increase in the minimum credit rating for counterparties from BBB to BBB+.

### **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 2017/18 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 will need to borrow in order to carry out its capital programme. This may be done by borrowing additional sums to pre or post-fund future year's requirements. The capital programme is shown below in the table:

<b>Capital Expenditure</b>	<b>2016/17 Revised £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
Non-HRA capital expenditure	21.445	10.551	2.096	1.464
HRA capital expenditure	20.567	28.164	14.989	11.668
<b>Total Capital expenditure</b>	<b>42.012</b>	<b>38.715</b>	<b>17.085</b>	<b>13.132</b>
<b>Financed by:</b>				
Government Grants	1.575	0.870	0.870	0.870
Capital receipts	3.890	10.032	1.595	0.664
Revenue	16.182	24.122	14.620	11.598
Borrowing	20.365	3.691	0	0
<b>Total resources Applied</b>	<b>42.012</b>	<b>38.715</b>	<b>17.085</b>	<b>13.132</b>
<b>Closing balance on:</b>				
Capital Receipts	5.169	0.198	0.299	1.368
Major Repairs Reserve	9.143	2.149	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 the major repairs reserve, for anticipated major repairs allowance.

6. The financial risk involved with the capital programme is the impact of reducing the balance on usable capital receipts. This will reduce earnings from interest on balances and will mean additional borrowing is needed in the future. 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 to the end of 2018/19 totals £98m and is funded but requires borrowing of £24m. It is predicted that at the end of 2019/20 there will be £1.368m available in usable Capital Receipts and nothing in the Major Repairs Reserve.

7. However, it should be remembered that the Council currently has no external borrowing for the General Fund and as at 31 March 2016 the balance sheet included more than £150m of General Fund fixed assets and investment properties. So the Council is not currently over borrowed and, as future borrowing will only be used on revenue generating schemes, completion of the capital programme will ultimately strengthen both the balance sheet and revenue position of the Council. Therefore it can be concluded that adequate resources, including borrowing, are available to fund 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 £240 million rising to £260m. Given current borrowing of £185m and borrowing of £24m to fund the capital programme, the authorised limit allows a further £30m of headroom to exploit any investment or development opportunities that arise. Taking forward any such opportunities would require approval from both Cabinet and Council.

<b>CFR</b>	<b>31-Mar-16 £m</b>	<b>31-Mar-17 £m</b>	<b>31-Mar-18 £m</b>	<b>31-Mar-19 £m</b>
Non-HRA	29.6	50.3	53.1	52.1
HRA	155.1	155.1	155.1	155.1
<b>Total Capital expenditure</b>	<b>184.7</b>	<b>205.4</b>	<b>208.2</b>	<b>207.2</b>

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 2017/18 would create a MRP in 2018/19. 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.

<b>Maturity structure of fixed rate borrowing</b>	<b>Existing level at 31/03/16 %</b>	<b>Lower Limit for 2017/18 %</b>	<b>Upper Limit for 2017/18 %</b>
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, so that the Council is not left in a situation where it finds itself having to refinance on unsuitable terms. Borrowing is readily available either through the PWLB or from other local authorities and interest rates are predicted to remain low over the medium term. Therefore, no difficulty is currently anticipated with either the availability or cost of finance for either refinancing or new borrowing.

#### 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) Maturity limits of between 35 days and 13 months are now applicable;
- (ii) A maturity limit of 13 months applies to Bank of Scotland, Lloyds TSB and HSBC Bank plc;
- (iii) A maturity limit of 6 months applies to Santander UK, Nationwide Building Society, Coventry Building Society and Close Brothers;
- (iv) A maturity limit of 100 days applies to Barclays plc and most building societies;
- (v) A maturity limit of 35 days applies to RBS and NatWest.

##### **(b) European Banks:**

- (i) A maturity limit of 100 days applies to Credit Suisse, Danske Bank and ING Bank;
- (ii) A maturity limit of 6 months applies to Op Corporate Bank and Landesbank Hessen-Thuringen;
- (iii) A maturity limit of 13 months applies to no Nordea, Rabobank, and Handelsbanken.

##### **(c) Non European Banks:**

A 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:**

An exposure limit of £5m per MMF.

14. As at 31 December the Council had an investment portfolio of £48.5m, 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.

<b>Country of Counterparty</b>	<b>£m</b>
United Kingdom	46.5
Euro Zone	0.0
Australia/Canada/USA	0.0
Ireland	0.0
Sweden	2.0
<b>Total</b>	<b>48.5</b>

<b>Current Maturity profile of investments</b>	<b>£m</b>
Overnight ( Call / Money Market Fund)	15.5
Up to 7 days	1.0
7 days to 1 month	18.0
1 month to 3 months	14.0
3 months to 6 months	0.0
6 months to 9 months	0.0
9 months to 1 year	0.0
> 1 year	0.0
<b>Total</b>	<b>48.5</b>

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 2019/20; and

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

17. The risks and related prudential indicators 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. This position has been strengthened for 2017/18 with the removal of counterparties with a BBB rating that had been included in the 2016/17 counterparty list, the minimum required rating is now BBB+.

(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 medium term.

#### Housing Finance Reform

18. 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 0.48%. The actual annual interest payments will be £5.6m which continues to represent a considerable saving against both what had been anticipated and what the payments used to be under the previous subsidy system.

#### Inter-Fund Balances

19. 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 regulations issued by CIPFA, it is required 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

20. 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 2016/17 Treasury Strategy. The Policy is attached at Appendix G for the Committee to consider, no changes are currently proposed.

#### **Resource Implications:**

Continued low interest rates, the use of limited counterparties and the short durations of investments have lowered the estimated interest income for 2016/17. Interest earnings for 2017/18 will reduce further as balances are invested in capital projects rather than short term deposits. No significant change in interest rates is anticipated over the medium term.

#### **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.

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# Equality analysis report

Use this report template to record your equality analysis. This report is a written record that demonstrates that you have shown *due regard* to the need to **eliminate unlawful discrimination**, **advance equality of opportunity** and **foster good relations** with respect to the personal characteristics protected by equality law. Due regard must be paid at formative stages of policy or service development, changes, or withdrawal.

To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:

- Factsheet 1: Equality Profile of the Epping Forest District
- Factsheet 2: Sources of information about equality protected characteristics
- Factsheet 3: Glossary of equality related terms
- Factsheet 4: Common misunderstandings about the Equality Duty
- Factsheet 5: Frequently asked questions
- Factsheet 6: Reporting equality analysis to a committee or other decision making body

If you require further help, please contact the Performance Improvement Unit.

## Step 1. About the policy, service change or withdrawal

Name of the policy, service or project: <i>be specific</i>	Business process improvement in Development Management
Revised / new / withdrawal:	Revised
Intended aims / outcomes/ changes:	Prudent and efficient management of the Council's treasury management activities.
Relationship with other policies / projects:	Required as part of the overall budget.
Name of senior manager for the policy / project:	Bob Palmer
Name of policy / project manager:	Peter Maddock

## Step 2. Decide if the policy, service change or withdrawal is equality relevant

<p>Does the policy / project / service process involve, or have consequences for employees or other people? If yes, please state who will be affected. If yes, then the policy / project is equality relevant.</p> <p>If no, state your reasons for this decision. Go to step 7.</p> <p><i>The majority of Council policies and projects are equality relevant because they affect employees or our communities in some way.</i></p>	<p>If yes, state which protected groups: n/a</p> <p>If no, state reasons for your decision: No as only covers the internal issue of managing the Council's treasury function and no impact on external service delivery or groups with protected characteristics.</p>
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### Step 3. Gather evidence to inform the equality analysis

What evidence have you gathered to help you understand the impact of your policy or service change or withdrawal on people? What does your evidence say about the people with the protected characteristics? If there is no evidence available for any of the characteristics, please explain why this is the case, and your plans to obtain relevant evidence. Please refer to Factsheet 2 'Sources of evidence for the protected characteristics'

<b>Characteristic</b>	<b>Evidence (name of research, report, guidance, data source etc)</b>	<b>What does this evidence tell you about people with the protected characteristics?</b>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

### Steps 4 & 5 Analyse the activity, policy or change (*The duty to eliminate unlawful discrimination*)

Based on the evidence you have analysed, describe any actual or likely adverse impacts that may arise as a result of the policy decision. Where actual or likely adverse impacts have been identified, you should also state what actions will be taken to mitigate that negative impact, ie what can the Council do to minimise the negative consequences of its decision or action.

<b>Characteristic</b>	<b>Actual or likely adverse impacts identified</b>	<b>Actions that are already or will be taken to reduce the negative effects identified</b>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Marriage and civil partnership		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

**Step 6. - The duty to advance equality of opportunity**

Can the policy, service or project help to advance equality of opportunity in any way? If yes, provide details. If no, provide reasons. *(Note: not relevant to marriage and civil partnership)*

<b>Characteristic</b>	<b>Ways that this policy, service or project can advance equality of opportunity</b>	<b>Why this policy, service or project cannot help to advance equality of opportunity:</b>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

**The duty to foster good relations**

Can the policy, service or project help to foster good relations in any way? If yes, provide details. If no, provide reasons. *(Note: not relevant to marriage and civil partnership)*

<b>Characteristic</b>	<b>How this policy, service or project can foster good relations:</b>	<b>Why this policy, service or project cannot help to foster good relations:</b>
Age		
Dependents / caring responsibilities		
Disability		
Gender reassignment		
Pregnancy and maternity		
Race / ethnicity		
Religion or belief		
Sex		
Sexual orientation		

**Step 7. Documentation and Authorisation**

<b>Summary of actions to be taken as a result of this analysis (add additional rows as required):</b>	<b>Name and job title of responsible officer</b>	<b>How and when progress against this action will be reported</b>
1. <i>None, as the analysis above has determined that no actual or likely adverse impacts would arise as a result of this project.</i>	Peter Maddock	N/A

Name and job title of officer completing this analysis:	Peter Maddock Assistant Director
Date of completion:	13 <sup>th</sup> January 2017
Name & job title of responsible officer: (If you have any doubts about the completeness or sufficiency of this equality analysis, advice and support are available from the Performance Improvement Unit)	Bob Palmer Director of Resources
Date of authorisation:	13 <sup>th</sup> January 2017
Date signed copy and electronic copy forwarded to PIU <a href="mailto:equality@eppingforestdc.gov.uk">equality@eppingforestdc.gov.uk</a>	

### **Step 8. Report your equality analysis to decision makers:**

Your findings from this analysis (and any previous analysis) must be made available to a decision making body when it is considering the relevant service or policy. Therefore you must:

- Reflect the findings from this analysis in a 'Due Regard Record' (template available), and attach it as an appendix to your report. The Record can be updated as your policy or service changes develop, and it exists as a log of evidence of due regard;
- Include this equality information in your verbal report to agenda planning groups or directly to portfolio holders and other decision making groups.

### **Your summary of equality analysis must include the following information:**

- If this policy, service change or withdrawal is relevant to equality, and if not, why not;
- The evidence base (information / data / research / feedback / consultation) you used to help you understand the impact of what you are doing or are proposing to do on people with protected characteristics;
- What the evidence base (information / data / research / feedback / consultation) told you about people with protected characteristics;
- What you found when you used that evidence base to assess the impact on people with the protected characteristics;
- Whether or not your policy or service changes could help to advance quality of opportunity for people with any of the protected characteristics;
- Whether or not your policy or service changes could help to foster good relations between communities.

# Treasury Management Strategy Statement 2017/18

## 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 Authority 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.

In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

## External Context

**Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of the French presidential and general elections (April - June 2017) and the German federal elections (August - October 2017) have the potential for upsets.

**Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.

**Interest rate forecast:** The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view, and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

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 0.3%, and that new long-term loans will be borrowed at an average rate of 2.5%.

### **Local Context**

On 31st December 2016, the Council held £185m of borrowing and £49m 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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	29.6	50.3	53.1	52.1	51.2
HRA CFR	155.1	155.1	155.1	155.1	155.1
<b>Total CFR</b>	<b>184.7</b>	<b>205.4</b>	<b>208.2</b>	<b>207.2</b>	<b>206.3</b>
Less: Other debt liabilities	0	0	0	0	0
<b>Borrowing CFR</b>	<b>184.7</b>	<b>205.4</b>	<b>208.2</b>	<b>207.2</b>	<b>206.3</b>
Less: External borrowing	-185.5	-203.8	-207.5	-206.5	-205.5
<b>Internal (over) borrowing</b>	<b>-0.8</b>	<b>1.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
Less: Usable reserves	46.9	43.0	32.9	31.2	30.7
Less: Working capital	5.5	5.5	5.5	5.5	5.5
<b>Investments</b>	<b>51.6</b>	<b>50.1</b>	<b>39.1</b>	<b>37.4</b>	<b>37.0</b>

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.

The Council has an increasing CFR due to the capital programme, but reducing investments and will therefore be required to borrow up to £25m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council'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 2017/18.

### **Borrowing Strategy**

The Council currently holds £185 million of loans, the same as the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £25m over the forecast period. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £240 million.

**Objectives:** The Council'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 Council'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) 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 modestly. 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 2017/18 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 2017/18, 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 to cover unplanned 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)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Other 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.

**Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

**Short-term and Variable Rate loans:** These loans leave the Council 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 ranged between £55.8m and £48.5m, and reduced levels are expected to be seen 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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Negative Interest Rates:** If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. Only just over 50% of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification represents a continuation of the new 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 50 years	n/a	n/a
AAA	£5m 5 years	£5m 20 years	£5m 50 years	£5m 20 years	£1m 20 years
AA+	£5m 5 years	£5m 10 years	£5m 25 years	£5m 10 years	£1m 10 years
AA	£5m 4 years	£5m 5 years	£5m 15 years	£5m 5 years	£1m 10 years
AA-	£5m 3 years	£5m 4 years	£5m 10 years	£5m 4 years	£1m 10 years
A+	£2.5m 2 years	£5m 3 years	£5m 5 years	£2.5m 3 years	£1m 5 years
A	£2.5m 13 months	£5m 2 years	£5m 5 years	£2.5m 2 years	£1m 5 years
A-	£2.5m 6 months	£5m 13 months	£2.5m 5 years	£2.5m 13 months	£1m 5 years
BBB+	£2.5m 100 days	£2.5m 6 months	£1m 2 years	£1m 6 months	£1m 2 years
<b>Pooled funds</b>	£5m per fund				

This table must be read in conjunction with the notes below.

For 2017/18 it has been decided to remove counterparties with a BBB rating.

**Credit Rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**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. For the efficient management of the Council's cash flow it is necessary to allow a limit of £5 million to be held with the Council's banker, NatWest plc. This is restricted to overnight deposits and is always kept to a minimum.

**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 the 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, 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 Authority 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 Authority 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	£25m

**Investment Limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £15 million on 31st March 2017. 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 £5 million. 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**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Local Authorities	£25m in total
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£15m per broker
Foreign countries	£5m per country
Registered Providers	£10m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£20m 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.

	<b>Target</b>
Portfolio average credit rating	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.

	<b>Target</b>
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:

	2017/18	2018/19	2019/20
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 will not change during the life of the transaction. 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:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

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:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£15m	£5m	£5m

### Other Items

There are a number of additional items that the Council 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 Council 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 each month and interest transferred between the General Fund and HRA at the Council'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 three months as part of the staff appraisal and treasury planning processes, 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 the Director of Resources.

**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 £240 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 2017/18 is £0.1m, based on an average investment portfolio of £34.6m at an interest rate of 0.3%. The budget for debt interest paid in 2017/18 is £5.6 million, based on an average debt portfolio of £185 million 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

### Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

### Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Ave rage
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	<b>0.12</b>
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	<b>0.40</b>
<b>3-month LIBID rate</b>														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	<b>0.18</b>
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.29</b>
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.34</b>
<b>1-yr LIBID rate</b>														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	<b>0.23</b>
<b>Arlingclose Central Case</b>	<b>0.60</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.60</b>	<b>0.70</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.65</b>
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	<b>0.24</b>
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.40</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.40</b>	<b>0.40</b>	<b>0.40</b>	<b>0.45</b>	<b>0.50</b>	<b>0.55</b>	<b>0.60</b>	<b>0.65</b>	<b>0.45</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	<b>0.47</b>
<b>10-yr gilt yield</b>														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
<b>Arlingclose Central Case</b>	<b>1.15</b>	<b>0.95</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.90</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.15</b>	<b>0.96</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	<b>0.47</b>
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
<b>Arlingclose Central Case</b>	<b>1.70</b>	<b>1.50</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.65</b>	<b>1.70</b>	<b>1.75</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	<b>0.57</b>
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
<b>Arlingclose Central Case</b>	<b>1.60</b>	<b>1.40</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.41</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	<b>0.57</b>

## Appendix B - Existing Investment & Debt Portfolio Position

	31.12.16 Actual Portfolio £m	31.12.16 Average Rate %
<b>External Borrowing:</b>		
PWLB - Fixed Rate	153.656	3.000
PWLB - Variable Rate	31.800	0.78
Local Authorities	0	
LOBO Loans	0	
<b>Total External Borrowing</b>	<b>185.456</b>	
<b>Other Long Term Liabilities:</b>		
PFI	0	
Finance Leases	0	
<b>Total Gross External Debt</b>	<b>185.456</b>	
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term investments	38.5	0.40
Long-term investments	0	
<i>Managed externally</i>		
Fund Managers	0	
Pooled Funds	10	0.26
<b>Total Investments</b>	<b>48.5</b>	
<b>Net Debt</b>	<b>136.956</b>	

## Appendix C -

### Prudential Indicators 2017/18 to 2019/20

#### 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 2016/17, 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	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Non-HRA	21.445	10.551	2.096	1.464	1.312
HRA*	20.567	28.164	14.989	11.668	11.668
Total	42.012	38.715	17.085	13.132	12.980

3.2 Capital expenditure will be financed or funded as follows:

<b>Capital Financing</b>	<b>2016/17 Revised £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Capital receipts	3.890	10.032	1.595	0.664	0.512
Grants	1.575	0.870	0.870	0.870	0.870
Borrowing	20.365	3.691	0	0	0
Revenue contributions	16.182	24.122	14.620	11.598	11.598
<b>Total Financing</b>	<b>42.012</b>	<b>38.715</b>	<b>17.085</b>	<b>13.132</b>	<b>12.980</b>

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.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2015/16 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
Non-HRA	0.51	-0.85	-0.25	0.90	0.95
HRA	16.64	15.47	16.08	17.43	16.61

#### 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.

<b>Capital Financing Requirement</b>	<b>2015/16 Actual</b>	<b>2016/17 Revised</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
HRA	155.1	155.1	155.1	155.1	155.1
Non-HRA	29.6	50.3	53.1	52.1	51.2
<b>Total CFR</b>	<b>184.7</b>	<b>205.4</b>	<b>208.2</b>	<b>207.2</b>	<b>206.3</b>

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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Increase in Band D Council Tax	-1.03	1.90	0.06	0.60
Increase in Average Weekly Housing Rents	-4.73	-5.86	-12.96	-13.46

## **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.

	2016/17 Approved £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Authorised Limit for Borrowing	240.00	250.00	260.00	260.00
<b>Authorised Limit for External Debt</b>	<b>240.00</b>	<b>250.00</b>	<b>260.00</b>	<b>260.00</b>
Operational Boundary for Borrowing	230.00	240.00	250.00	250.00
<b>Operational Boundary for External Debt</b>	<b>230.00</b>	<b>240.00</b>	<b>250.00</b>	<b>250.00</b>

## 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.

	2016/17 Approved %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
<u>Fixed</u>				
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100
Upper limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)
<u>Variable</u>				
Upper Limit for Variable Interest Rate Exposure on Debt	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(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 31/12/2016 (Section 8)

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) £m	Maximum Maturity Limit
UK	Santander UK Plc (Banco Santander Group)	5.0		6 months
UK	Bank of Scotland (Lloyds Banking Group)	5.0	5.0	13 months
UK	Lloyds TSB (Lloyds Banking Group)	5.0		13 months
UK	Barclays Bank Plc	5.0		100 days
UK	Close Brothers Ltd.	5.0		6 months
UK	Goldman Sachs	5.0		100 days
UK	HSBC Bank Plc	5.0		13 months
UK	Nationwide Building Society	5.0		6 months
UK	Coventry Building Society	5.0		6 months
UK	Leeds Building Society	5.0		100 days
UK	NatWest (RBS Group)	5.0	5.0	35 days
UK	Royal Bank of Scotland (RBS Group)	5.0		35 days
Australia	Australia and NZ Banking Group	5.0		6 months
Australia	Commonwealth Bank of Australia	5.0		6 months
Australia	National Australia Bank Ltd (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	Op Corporate Bank	5.0		6 months
Denmark	Danske Bank	5.0		100 days
France	Credit Agricole CIB (Credit Agricole Group)	Suspended		Suspended
France	Credit Agricole SA (Credit Agricole Group)	Suspended		Suspended
France	Société Générale	Suspended		Suspended
Germany	Landesbank Hessen-Thuringen	5.0		6 months
Netherlands	ING Bank NV	5.0		100 days
Netherlands	Rabobank	5.0		13 months
Sweden	Nordea Bank AB	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
UK	Building Societies	See below		See below

The following 12 building societies have limits of £1m and 100 days - Darlington, Furness, Hinckley & Rugby, Leek, Loughborough, Mansfield, Market Harbrough, Marsden, Melton Mowbray, National Counties, Newbury and Stafford.

*\*\*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	10	No	
Gilts	5 years	10	No	
Bonds issued by multilateral development banks	5 years	5	No	<i>EIB Bonds, Council of Europe Bonds etc.</i>
Sterling denominated bonds by non-UK sovereign governments	5 years	5	No	
Money Market Funds and Collective Investment Schemes	5 years	20	No	<i>Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&amp;G Global Dividend Growth Fund</i>
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	<i>Way Charteris Gold Portfolio Fund; Lime Fund</i>

## Appendix F - MRP Statement 2017/18

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 2017/18: 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 2017/18 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 2017/18 then in the following financial year, 2018/19, there will be a requirement to charge MRP.

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## **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.