



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE Monday, 24th September, 2018

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, 24th September, 2018
at 7.00 pm .**

**Derek Macnab
Acting Chief Executive**

**Democratic Services
Officer**

Adrian Hendry, Democratic Services
Tel: 01992 564243 Email:
democraticservices@eppingforestdc.gov.uk

Members:

Councillors J Knapman (Chairman), P Bolton, A Jarvis (Independent), L Hughes, R Jennings, J M Whitehouse and N Nanayakkara (Vice-Chairman)

WEBCASTING/FILMING NOTICE

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site - at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed. The meeting may also be otherwise filmed by third parties with the Chairman's permission.

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If you have any queries regarding this, please contact the Public Relations Manager on 01992 564039.

1. WEBCASTING INTRODUCTION

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

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

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

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

2. APOLOGIES FOR ABSENCE

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

3. DECLARATIONS OF INTEREST

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

4. MINUTES (Pages 5 - 14)

(Director of Governance) To confirm the minutes of the last meeting of the Committee held on 30 July 2018.

5. MATTERS ARISING

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

6. AUDIT & GOVERNANCE WORK PROGRAMME 2018/19 (Pages 15 - 16)

(Director of Governance) To consider the attached Work Programme for 2018/19.

7. ANNUAL AUDIT LETTER FOR 2017/18 (Pages 17 - 32)

(External Auditor) To consider the attached report (AGC-007-2018/19).

8. INTERNAL AUDIT MONITORING REPORT - AUGUST TO SEPTEMBER 2018 (Pages 33 - 48)

(Chief Internal Auditor) To consider the attached report (AGC-008-2018/19).

9. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS FOR 2017/18 (Pages 49 - 64)

(Principal Accountant) To consider the attached report (AGC-009-2018/19).

10. 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.

11. 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):

<i>Agenda Item No</i>	<i>Subject</i>	<i>Exempt Information Paragraph Number</i>
<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

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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EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 30 July 2018

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.15 pm

Members Present: Councillors J Knapman (Chairman), A Jarvis, L Hughes, R Jennings and J M Whitehouse

Other Councillors: A Lion

Officers Present: P Maddock (Assistant Director (Accountancy)), Z Thompson (External Auditor), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), F Ahmed (Finance Officer), A Hendry (Senior Democratic Services Officer) and R Perrin (Senior Democratic Services Officer)

1. Webcasting Introduction

Councillor J Knapman made a short address to remind everyone present that the meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

2. Election of Chairman and Vice-Chairman

Councillor J Knapman opened the meeting and advised the Committee that it needed to elect a Chairman and Vice-chairman for 2018/19, and that under the Terms of reference for the Committee, where the Chairman was an elected Member then the Vice-Chairman had to be one of the Co-Opted Members and vice versa. Nominations were invited from the Committee for the role of Chairman for the forthcoming municipal year.

Following the election of the Chairman, Councillor J Knapman invited nominations for the role of Vice-Chairman for the forthcoming municipal year.

Resolved:

(1) That J Knapman be elected Chairman of the Audit and Governance Committee for 2018/19; and

(2) That N Nanayakkara be elected Vice-Chairman of Audit and Governance Committee for 2018/19.

3. Declarations of Interest

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

4. Minutes

Resolved:

That the minutes of the meeting held on 26 March 2018 be taken as read and signed by the Chairman as a correct record.

5. Matters Arising

There were no matters arising from the previous meeting.

6. Audit & Governance Work Programme 2018/19

The Chief Internal Auditor presented the Audit and Governance Work Programme for 2018/19 and stated that additional items could be added to the Programme as and when they arose.

Councillor J Knapman commented that the Committee could consider the Planning Service as part of their work programme to establish if it was value for money.

7. Statutory Statement of Accounts 2017/18

The Assistant Director (Accountancy) advised that one of the key roles of this Committee was scrutinising the annual Statutory Statement of Accounts. All Members of the Council would have the opportunity to debate the accounts at Full Council and part of that debate would be to consider the recommendation of this Committee. He advised that the External Audit was still being carried out as a result of the Government changing the requirement for the accounts to be completed by 31 July 2018 instead of the end of September.

The Assistant Director (Accountancy) informed the Committee that there had been no significant changes to presentation of the annual Statutory Statement of Accounts for 2017/18. Two of the notes required by International Financial Reporting Standards required a major element of judgement, which were Note 3 "Critical judgements in applying accounting policies" and Note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in Note 3 was that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values. The main area included under Note 4, related to the Council's pension liability. The substantial annual fluctuations in the pension liability made clear the element of judgement exercised by the actuary in establishing the pension figures. The Balance Sheet showed that the pension liability for the Council had decreased in the year from £81.121 million to £74.860 million. This was due to the £3.072 million increase in the value of the projected liabilities being lower than the £9.333 million increase in scheme assets. Further fluctuations were likely in subsequent years as it became clear how members of the pension scheme were responding to the change from a final salary scheme to a career average based scheme. The inclusion of the amount in the Balance Sheet showed the extent of the authority's liability, if the pension fund was to close on 31 March 2018 but did not mean that the full liability would have to be paid over to the pension fund in the near future.

There were two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these was asset valuations, Property, Plant and Equipment (PPE) that had a value of nearly £758 million, followed by Investment Properties with a value of £114 million. The assets were revalued periodically to ensure their valuations were correct and up to date and the auditors had carefully considered all of the revaluations and were satisfied that the asset values were not materially misstated.

The other area had been the provision for business rate appeals. The Collection

Fund included a Provision for Appeals of £3.4 million, which had been similar to 2016/17. This provision was calculated with the help of an external firm of rating experts who had analysed each outstanding appeal up to the end of March 2017 and had given a projected value for settlement. From April 2017, the new rating list had come into force, in addition to a new system of dealing with appeals. To date no appeals relating to the new list had been settled, consequently there was no real information to base the provision relating to 2017/18 on.

The financial statements for 2017/18 showed the St Johns Site as an asset held for sale, at £6.139 million. It was originally classified under Current Assets due to the completion of the sale expected in February 2019. However, now it looked likely to occur during 2019/20 and had therefore been reclassified as a Non-Current Asset. There had been no extraordinary items and no prior year adjustments.

There had been two significant adjustments required since the draft accounts had been issued which included;

- (a) The pension information had to be restated, as it was discovered that there was a significant difference in the overall estimated value of the fund at £6,630 million compared to what actually transpired which was £6,519 million. This meant the liability relating to the council recorded in the accounts increased from £72.001 million to £74.860 million; and
- (b) The Shopping Park which had increased in valuation and had been reclassified as an investment property and added to the Revaluation Reserve. However, on reclassification the revalued amount should have been moved to the Capital Adjustment Account but the asset management system had not flag the entry and it was unfortunately not spotted until after 31 May 2018. Nevertheless, it had no affect on the Council's Comprehensive Income and Expenditure or Balance Sheet totals.

There were a couple of other more minor adjustments and reclassifications which was usually the case and neither the Internal nor External Auditor had reported any material weakness in internal controls.

The Committee noted that on the Index of Notes to the Statement of Accounts, Officer Remuneration, the remuneration in relation to the Assistant Director of Neighbourhoods looked concerning, as it appeared that they were earning more than the Chief Executive. The Assistant Director (Accountancy) advised that the Assistant Director of Neighbourhoods had been previously employed as a consultant and because of changes to regulations they had to be brought onto the payroll. The Committee asked that more information be included in the Statement to better reflect and explain the situation regarding these figures. The Committee also asked that some consideration be given when transferring a consultant onto the PAYE system and that a precedent was not set by giving the same rates as a consultant.

The Committee enquired whether the Council was in a financially stronger position than the previous year. The Assistant Director (Accountancy) advised that the Council's position was largely unchanged and that the real challenges laid ahead for all local authorities when the Fair Funding Review reached its conclusion.

The Committee commented that there had not been enough time to test the integrity of the financials, or critically review the accounts, narrative or auditors' report in the two days since the publication of the accounts and concerns could be raised about how the Committee had been seen to discharge its responsibilities effectively. Furthermore, the legislative changes to the timetable for the preparation and approval of accounts and audit deadline for 2017/18 had been known in 2015, so

there should have been no need for the late production. The Committee asked that auditors and the EFDC responsible officers reported back to a future meeting about what steps would be put in place to prevent this happening again.

Resolved:

(1) That the auditors and the EFDC responsible officers report back to a future meeting on the steps they will put in place to prevent the late issue of the Statutory Statement of Accounts for consideration at the Audit and Governance Committee; and

(2) That subject to any minor amendments required by the external auditors, the Audit and Governance Committee recommend to the Council that the Statutory Statement of Accounts for 2017/18 be adopted.

8. Annual Report of the Chief Internal Auditor

The Chief Internal Auditor presented their Annual Report for 2017/18.

The Chief Internal Auditor informed the Committee that this report was presented in support of the Internal Audit opinion on the adequacy of the Council's internal control environment and provided a summary of the work undertaken by the Internal Audit shared service during 2017/18. The Accounts and Audit Regulations 2015 also included a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance.

The Chief Internal Auditor reminded the Committee that the 2017/18 Internal Audit Plan had been presented to the Audit and Governance Committee in March 2017. A total of 19 assurance reviews were completed and overall the audits were positive with the majority being given Substantial assurance and there were no Limited or No assurance reports. Furthermore, the reports that had been given Moderate assurance, related to a specific area rather than a breakdown of controls across the Council.

The Chief Auditor also stated that her opinion had not relied solely upon the formal audits undertaken, but also took account of special investigations undertaken by the Internal Audit or the Corporate Fraud Team. There had been no significant (estimated at more than £10,000) investigations into suspected internal fraud, although an internal investigation had been carried following the Chief Internal Auditor receiving a Whistleblowing allegation. Furthermore, the Corporate Fraud Team reported directly to the Chief Internal Auditor, which ensured that there was a corporate approach to anti-fraud activities as well as ensuring synergies with the Internal Audit team.

In November 2016 the service was confirmed as being fully compliant with the Public Sector Internal Audit Standards (PSIAS) by an external assessor, which remained the case because there had been no significant changes in the way the Internal Audit service was delivered or operated and the Chief Internal Auditor had not taken on any additional responsibilities.

The performance indicators for the service in 2017/18 were as follows:

Aspect of Service	Performance Indicator	Target	2017/18 Year End outcome	2016/17 Year End outcome
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Audit Plan	Achievement of the Annual Plan	95%	87%*	84%
Internal Audit processes	Issue of draft report after closing meeting	10 working days	5 days	16 days
	Issue of final report after agreement with client to draft	5 working days	3 days	4 days
Effective management engagement	Management responses within 10 working days of draft report	10 working days	10 days	21 days
	Implementation of agreed audit recommendations	Within agreed timescales	Largely met (as reported by tracker)	Largely met (as reported by tracker)

The Committee commented that they were mindful of the resourcing issues that had impacted the 2017/18 internal audit and had caused the deferrals; consequently it was surprising that it had not been reflected in the resources constraints. It was also highlighted that the implementation of the Internal Audit Work Plan and the need for future deferrals should be minimised as much as possible. The Chief Internal Auditor advised that if she had felt that not enough work had been completed or not fully understood, she would have declared it in her report and although there had been some deferrals, a wide range of areas had been covered.

The Committee advised that they had requested that criteria for any potential deferrals on the current Audit Plan would be established. The Chief Internal Auditor advised that the criteria for deferrals would be considered by the Corporate Governance Group.

Resolved;

- (1) The Annual Report of the Chief Internal Auditor for 2017/18 and the Assurance Level given be noted;
- (2) That the Annual Report of the Chief Internal Auditor for 2017/18 be included as part of the review by the Committee of the adequacy and effectiveness of Internal Control; and
- (3) That, for the twelve-month period ending 31 March 2018, the confirmation by the Chief Internal Auditor that the Council had an adequate and effective Governance, Risk Management and Control Framework be noted.

9. Annual Governance Statement 2017/18

The Chief Internal Auditor presented a report on the Annual Governance Statement for 2017/18.

The Chief Internal Auditor stated that the Council's Statutory Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2015. Within the Regulations, and in accordance with defined 'proper practice', there was a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements were designed to provide the Council with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved. The Statement was also partly derived from

detailed reviews by all Service Directors on the effectiveness of the governance arrangements within their areas. The Statement also outlined the Governance Framework at the Council, the progress made on significant governance issues identified in the previous Statement, and the following areas for improvement or monitoring during 2018/19:

- (i) to maintain compliance on General Data Protection Regulations and ensure continuous improvement; and
- (ii) Transformation.

The Committee commented that all the Statutory Officers in the Corporate Governance Group had recently changed and whether there had been any assurance that the appropriate support had been put into place. The Chief Internal Auditor advised that the current arrangements (pending the introduction of a new senior management structure) included the Senior Management, Monitoring Officer, Section 151 Officer and Chief Internal Auditor which had been referred to in the report and was in line with the Council responsibilities.

The Chairman advised that he had concerns over the governance of enforcement officers, when a Planning Committee had determined a planning application and no appeal was made, that the decision of the Sub-Planning Committee would not be carried out if enforcement was determined appropriate. He advised that he would be raising this issue at Full Council.

Resolved:

That the Annual Governance Statement for 2017/18 be approved.

10. Corporate Fraud Team Strategy 2018 / 2019

The Chief Internal Auditor presented a report on the Corporate Fraud Team Strategy which set out the focus and approach of the Corporate Fraud Team for the year 2018/2019 and summarized the work of the team for 2017/18.

The Chief Internal Auditor advised that the main focus of the proactive work undertaken by the team during the 2018/2019 would include Right to Buy Applications, Non-Domestic Rates fraud and fraud within Council Tax single person discounts. The team would review and risk assess 100% of the referrals it received, in order to ensure efficient allocation of resources and the highest risk referrals were prioritised. It would also continue with the Whistle Blowing Policy.

In addition, the Corporate Fraud Team would continue with the National Fraud Initiative to match any frauds that potentially involved staff and “high risk” cases. The joint working arrangements continued with Brentwood Borough Council which had the added benefits of additional income, investigators honing their skills in investigations and training. The informal joint working initiative with the anti-fraud team at Chelmsford City Council would also continue into 2018/2019 with the intention to become self funding.

Resolved:

That the Corporate Fraud Team Strategy for 2018 / 2019 be approved.

11. Audit and Governance Committee Annual Report

The Chief Internal Auditor presented the Audit & Governance Committee Annual Report 2017/18.

The Chief Internal Auditor stated that the Annual Report of the Audit and Governance Committee outlined the Committee's work and achievements over the year ending 31 March 2018. The Annual Report helped to demonstrate to residents and the Council's other stakeholders, the vital role that was carried out by the Audit and Governance Committee and the contribution that it made to the Council's overall governance arrangements.

The Annual Report had concluded that the Committee continued to make a real and positive contribution to the governance arrangements of the Council. The Committee's key achievement was in the additional assurance provided for the robustness of the Council's arrangements regarding corporate governance, risk management and the control environment. During the coming year, the Committee would concentrate on:

- Continuing to review governance arrangements to ensure that the Council adopted the best practice;
- Continuing to support the work of audit and ensure that appropriate responses were provided to their recommendations;
- Continuing to help the Council manage the risk of fraud and corruption;
- Providing effective challenge, particularly to officers, raising awareness of the importance of sound internal control arrangements and giving the appropriate assurances to the Council;
- Considering the effectiveness of the Council's risk management arrangements; and
- Providing existing and new members of the Committee with relevant training, briefings etc. to help in discharging their responsibilities.

Recommended:

That the Annual Report for the Audit and Governance Committee for 2017/18 be recommended to the Council for approval.

12. Internal Audit Monitoring Report - April to July 2018

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the period April to July 2018.

The Chief Internal Auditor advised the Committee that ten reports had been issued since the previous meeting, of which six had been given substantial assurance and were related to Housing Planned Maintenance and Major Works Programme, Card Income Payments, Payroll, HR Absence Management, Housing Benefits and Capital Projects (Non-Housing). The four that had been given moderate assurance were Leisure Management Contract, Asset Management Strategy, General Ledger and Agency Workers. The Audit Recommendation Tracker currently contained two recommendations which had passed their due date; both medium priority for Management of Council Housing Voids and Leisure Management Contract.

Other Internal Audit activities included the Internal Audit representation on business groups and project teams, in addition to less formal meetings. The main focus of Internal Audit's non-audit work had been General Data Protection Regulation (GDPR) Working Party which had been recently been disbanded as GDPR came into force on 25 May 2018. Furthermore, Internal Audit had developed internal audit

programmes, in conjunction with the Council's Data Protection Officer, to assess the Council's compliance with GDPR.

Finally, the Chief Internal Auditor advised that the National Fraud Initiative (NFI) and the Council were data matching with other Essex councils as part of a pan-Essex commitment, to identify fraud and error in the Council Tax base. Nearly £400,000 of savings had been made across Essex since November 2017, with the Council achieving savings of over £55,000 from the matches.

Resolved:

That the progress made against the Internal Audit Plan for 2018/19 be noted.

13. Any Other Business

In accordance with Section 100B(4)(b) of the Local Government Act 1972, the following items of urgent business be considered following the publication of the agenda:

- Audit of Accounts - Annual Governance Report 2017/18.

14. Audit of Accounts - Annual Governance Report 2017/18

The External Auditor introduced the audit report for the year ended 31 March 2018, highlighting the key findings of the financial statement of the Council. They had substantially completed their audit procedures in accordance with the planned scope and their objectives had been achieved, subject to the matters set out in the report.

The key findings were;

- (a) That no additional significant audit risks had been identified during the course of the external audit procedures subsequent to the Audit Plan on 19 January 2018;
- (b) That the final materiality was £2,000,000, which had not required reassessment;
- (c) That there were no significant changes to the planned audit approach nor were any restrictions placed on the audit;
- (d) That the audit identified the following material misstatements:
 - Upon transfer of the Langston Road Retail Park from Assets Under Construction to Investment Properties, the Revaluation Reserve balance was not removed via the Capital Adjustment Account. The revaluation reserve was therefore overstated by £6.503 million and this had been adjusted in the revised financial statements;
 - The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission had not yet been granted on the site and therefore the site should have been classified as a surplus asset within non-current assets. Surplus assets were consequently understated by £6.139m and this had been adjusted in the revised financial statements; and
 - The Essex Pension Fund actuary reissued its IAS19 actuarial valuation report in June 2018 following publication of the Council's draft financial

statements as there had been a significant movement in the estimate used in the actuarial calculation and the actual fund value at the year end of £111 million. The impact for the Council was that the pension scheme liability had increased by £2.859 million to £74.860 million and this had been adjusted in the revised financial statements.

- (e) That there had been no unadjusted audit differences;
- (f) That the audit identified no significant deficiencies in internal controls;
- (g) That following the receipt of the draft accounts, the Pension Actuary had issued an updated IAS19 report and the audit was in progress;
- (h) That a number of presentational changes had been made to the draft financial statements as a result of the audit;
- (i) That management reported at the end of the year a General Fund balance of £6.7 million, which was an improved position compared to the opening balance of £0.5 million predominantly due to a change in accounting treatment. Management were planning for reserves to be 37% of the Council's net funding requirement by 2021/22 with the minimum requirement being set by Members at 25%;
- (j) That the Council had healthy levels of reserves when compared to the minimum requirement and a strong asset base. The impact of the Transformation Programme and the commercial strategy the Council had adopted on its finances were appropriate to continue to deliver the strategies;
- (k) That subject to the successful resolution of outstanding matters, it had been anticipated that a unmodified opinion on the financial statements for the year ended 31 March 2018 would be issued;
- (l) That there were no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements; and
- (m) The Council was below the audit threshold for a full assurance review of the Whole Government Accounts return and no other powers or duties under the Local Audit and Accountability Act 2014 had been exercised.

The work of the External Auditors was still ongoing and would continue right up until the deadline of 31 July 2018.

The Committee raised concerns about the process and time given, to give a fair judgement on the External Auditor's Annual Governance Report.

Resolved:

That the External Auditor's Annual Governance Report be noted.

CHAIRMAN

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Audit & Governance Committee Work Programme 2018/19

30 July 2018

- Annual Report of the Chief Internal Auditor 2017/18.
- Audit and Governance Committee Annual Report 2017/18.
- Internal Audit Progress Report.
- Statutory Statement of Accounts 2017/18
- Annual Governance Statement 2017/18
- Corporate Fraud Team Strategy 2018/19 (deferred from March 2018)

- ❖ Audit of Accounts Annual Governance Statement 2017/18

24 September 2018

- Treasury Management Annual Outturn Report.
- Internal Audit Progress Report.

26 November 2018

- 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.
- Anti-Fraud and Corruption Strategy

- ❖ Annual Audit Letter 2018/19.

28 January 2019

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

25 March 2019

- Effectiveness of Risk Management.
- Internal Audit Progress Report
- Internal Audit Strategy and Audit Plan 2019/20.
- Corporate Fraud Team Strategy 2019/20.

- ❖ Planning Letter 2019/20.
- ❖ Audit Plan 2018/19.
- ❖ Grant Claims Audit Report 2017/18.

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 25 March 2019 meeting in the Conference Room.

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Report to: Audit & Governance Committee

Report reference: AGC-007-2018/19

Date of meeting: 24 September 2018

Portfolio: Finance

Subject: Annual Audit Letter 2017/18.

Responsible Officer: Peter Maddock (01992 564602).

Democratic Services Officer: Adrian Hendry (01992 564246).



**Epping Forest
District Council**

Recommendations/Decisions Required:

To consider and note the External Auditor's Annual Audit Letter.

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor. The Annual Audit Letter summarises the key issues arising from BDO's work during the year.

Reasons for Proposed Decision:

To comply with the Committee's Terms of Reference and ensure proper consideration of the Annual Audit Letter.

Other Options for Action:

There are no other options for action.

Report:

1. The Annual Audit Letter (AAL) confirms that the Financial Statements gave a true and fair view of the Council's financial affairs. It also confirms that the Annual Governance Statement contained in the Financial Statements was not misleading or inconsistent with other information.
2. The external auditors were able to satisfy themselves that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This enabled them to issue an unqualified value for money conclusion.
3. The AAL confirms that the auditors have not had to exercise their statutory powers and that they have no matters to report. An audit certificate to close the audit of the accounts for the year ended 31 March 2018 was issued on 1 August 2018.

Resource Implications:

No additional resource implications

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendation in this report.

Safer, Cleaner and Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the district.

Consultation Undertaken:

None.

Background Papers:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

Action plans have been agreed to address areas of risk identified during the audit.

Due Regard Record

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

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

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

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EBPPING FOREST DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

30 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Epping Forest District Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 1 August 2018.

We reported our detailed findings to the Audit and Governance Committee on 30 July 2018.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 August 2018.

FINANCIAL STATEMENTS

OPINIONS	We issued our unmodified opinion on the Council’s financial statements on 1 August 2018.
	<p>In our opinion:</p> <ul style="list-style-type: none">• The financial statements give a true and fair view of the financial position and its income and expenditure for the year• That the financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council’s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Council’s financial statements was set at £2 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2%) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review accounting estimates for management bias.</p> <p>We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We responded to this risk by testing an increased sample of fees and charges income to underlying documentation to confirm the existence and accuracy of transactions throughout the year.</p> <p>We carried audit procedures to gain an understanding of the Council’s internal control environment for new income streams, in particular the Langston Road Retail Park, including income recognition policies based upon the arrangements and agreements in place.</p> <p>We substantively tested an increased sample of income streams from source document to the general ledger and testing income to supporting documentation.</p>	<p>We did not identify any deficiencies in the internal control environment relating to the recognition of income.</p> <p>Substantive testing of a sample of income transactions did not identify any errors relating to the accuracy or existence of the income recognised.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert. • Checking the basis of valuation for assets valued in year as appropriate. • Checking the accuracy and completeness of the source data used by the valuer. • Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and followed up valuation movements that appeared unusual against indices. • Estimated the potential movement on classes of assets that were not revalued in year to assess whether there is the potential for material movements since the last valuation. 	<p>We gained assurance over the independence, objectivity and competence of the Council's external valuers, and therefore, can rely upon their work in valuing the Council's property assets.</p> <p>In relation to the sample of Property, Plant and Equipment assets and investment properties reviewed, we were satisfied that the basis of the valuation for each asset was appropriate. We challenged the valuer in respect of a number of property valuation movements, which appeared unusual in comparison to general indices and were satisfied these fall within a reasonable range.</p> <p>We gained assurance that the carrying values in respect of land and building not valued in the year were not materially different to the carrying values as reported by the Council.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an actuary. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Agreeing the information provided by the actuary. • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. • Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. • Checking whether any significant changes in membership data have been communicated to the actuary. 	<p>The disclosures in the Council's financial statements were consistent with the information provided by the actuary.</p> <p>Subsequent to the Council issuing the draft accounts, the Essex Pension Fund actuary re-issued its valuation report as there had been a significant movement in the estimate and actual fund value in the Essex Pension Fund of £111 million. This had the consequential impact of increasing the Council's pension scheme liability in the draft financial statements by £2.9 million to £74.9 million.</p> <p>We reviewed the reasonableness of the assumptions used by the pension fund actuary and did not identify any issues.</p>

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 1 August 2018.
	<p>This means we concluded that the Council has proper arrangements to:</p> <ul style="list-style-type: none"> • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	<p>With the continued reductions in central government funding for local government and increased pressure on services, the Council faces an increasing financial challenge.</p> <p>The Council has put in place its Transformation Programme to deliver required savings over the medium term, key pillars of which are the People, IT and Service Accommodation Strategies. The Council requires the successful implementation of these strategies in order maintain its level of reserves and continue to be financially sustainable in the longer term.</p> <p>Given the financial landscape in which the Council is operating, we considered financial sustainability to be a significant risk.</p> <p>We reviewed the Council’s Medium Term Financial Strategy (MTFS) to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified.</p> <p>We reviewed the progress it has made with its Transformation Programme.</p>	<p>The Council remains in a strong financial position due to its healthy reserve balances. The General Fund balance at the end of the year was £6.7 million and this is significantly above the minimum 25% approved by members. Earmarked reserves of £21.2 million provide the Council with a healthy useable reserve balance.</p> <p>The Council recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The development of the Langston Road Shopping Park, which is now operational, has provided the Council with a significant new revenue stream to mitigate against declining government funding, however, occupation levels will need to be maintained to ensure the Shopping Park is a success. The Transformation Programme is now in its third year and one strand of this programme is the People Strategy. The net savings of the proposed restructure are expected to be in the region of £1.7 million to £2.5 million. Another strand of the programme is the accommodation strategy and is not currently reflected in the MTFS as this strategy is under review following The Civic Offices being awarded Grade II listed building status.</p> <p>The Council has healthy reserves and a strong asset base and we reviewed the MTFS which was based on reasonable assumptions. The Council has demonstrated its commercial appetite through the development of the Shopping Park and progress with the Transformation Programme has continued in the year. No impact on our opinion was identified from our work.</p>

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
2016/17 Grant claim certification report	18 January 2018
Audit plan	19 January 2018
Audit completion report	25 July 2018

FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	64,672	64,672
Housing benefits subsidy certification fee	18,533	18,533
Total audit and certification fees	83,205	83,205
Pooling of housing capital receipts return 2016/17	TBC	2,000
Pooling of housing capital receipts return 2017/18	TBC	TBC
Total non-audit assurance services	TBC	TBC
Total assurance services	TBC	TBC

FOR MORE INFORMATION:

ZOE THOMPSON
Engagement lead

T: +44 (0)1473 320 734
E: zoe.thompson@bdo.co.uk

NICK BERNSTEIN
Manager

T: +44 (0)20 7034 5810
E: nick.bernstein@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Report to the Audit and Governance Committee

Report reference: AGC-008-2018/19

Date of meeting: 24 September 2018



**Epping Forest
District Council**

Portfolio: Technology and Support Services

Subject: Internal Audit Monitoring Report August to September 2018

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Adrian Hendry (01992 564246)

Recommendations/Decisions Required:

The Committee notes the progress made against the 2018/19 Internal Audit plan and the work of the Corporate Fraud Team.

Executive Summary:

This report updates members on the work completed by the Internal Audit Shared Service and the Corporate Fraud Team since the July 2018 Audit and Governance Committee, and also provides the current position in relation to overdue recommendations.

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:

2018/19 Internal Audit Plan

1. Work has commenced on the 2018/19 Audit Plan as detailed in Appendix 1. The timings of the audits have been agreed with management to ensure a timely flow of audit reports throughout the year.

Internal Audit Reports

2. The following report has been issued since the Committee received its last update in July 2018:

- **Debtors – substantial assurance**

Overall, sundry debt processes are well managed. Charges are identified and accurately billed in a timely manner by the relevant service directorate. Invoices are recorded on the

sundry debt IT system, AIMS, and management reports of outstanding debts are regularly produced to enable effective debt monitoring. Debt recovery procedures are followed in respect of unpaid debts, and cancellations and write-offs are appropriately authorised in line with the Sundry Income and Debt Policy.

Recommendation Tracker

3. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of whether they are overdue or not.
4. The current tracker is shown at Appendix 2 and the number of overdue recommendations remains low.

Table 1. Summary of tracker as at September 2018.

Recommendation type	Number (September 2018)	Number (July 2018)	Number (March 2018)	Number (January 2018)
High Priority not passed its due date	0	0	0	0
High Priority passed its due date	0	0	1	1
Medium Priority passed its due date	2	2	1	1
Low Priority passed its due date	2	0	2	2
Total	4	2	4	4

General Data Protection Regulation Update

5. Staff training sessions have taken place which will be reinforced by an e-learning module issued through metacompliance. A data declutter day instigated by Internal Audit, held in August, will become an annual event. Work is ongoing to identify and implement effective IT solutions to further ensure General Data Protection Regulation compliance.

Corporate Fraud Team Update

6. During July and August, the Corporate Fraud Team has been instrumental in the withdrawal of five Right to Buy (RTB) applications which has saved the Council approximately £393,000 in potential discount (based on the maximum RTB discount of £78,600). Furthermore, the five properties remain as Council housing stock thus generating ongoing revenue streams in the form of rent receipts.
7. The team is actively engaged in a number of significant investigations including a suspected subletting enquiry where indications suggest that the tenant has not occupied their council property in the last 12 years. The CFT is attempting to arrange a joint working arrangement with Northamptonshire Police in order to move this enquiry along as expediently as possible.

Resource Implications:

Within the report

Legal and Governance Implications:

None

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Corporate Governance Group

Background Papers:

2018/19 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 3 to the report.

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Appendix 1 - Audit Plan Monitoring 2018-19
Progress as at September 2018

	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										
Debtors	Resources	12	Final report	■	■	■	Substantial	0	1	2
Governance - St. John's Road	Neighbourhoods	8	In Progress	■						
Off Street Parking	Neighbourhoods	12	In Progress	■						
Joint Working -Museum Services	Communities	12	In Progress	■						
North Weald Airfield	Neighbourhoods	16	Scoping							
IT Software Licensing	Resources	10	Scoping							
Quarter 2										
Procurement - Contract Register and GDPR	Resources	15	Scoping							
Creditors	Resources	12	Scoping							
Right to Buy	Communities	10	Scoping							
Equality Impact Assessments	Corporate	12	Scoping							
Code of Conduct - Gifts and Hospitality	Corporate	10	Scoping							
Business Rates - Council wide approach	Resources	15								
Quarter 3										
Economic Development	Neighbourhoods	14								
Access to Housing	Communities	20								
Safeguarding	Communities	12								
Business Rates / Council Tax	Resources	18								
IT Systems Access and Mobile Working	Resources	10								
Performance Management - Stronger Council	Corporate	20								
Quarter 4										
Health & Safety - Corporate	Neighbourhoods	12								
Income - commercial rents	Neighbourhoods	15								
Emergency planning	Neighbourhoods	12								
Project - council housebuilding	Communities	10								
Planning Applications	Governance	10								
S106 agreements	Governance	10								
HR - starters, leavers and movers	Resources	5								

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EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 03 September 2018

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
Recruitment of Staff Report No. 15.16/17 June 2017	4	The Recruitment Toolkit procedure should be reviewed and updated if appropriate to ensure that they reflect current working practices. Once updated, the latest version should be added to the intranet, so that they are available for reference by all members of staff.	Low	Human Resources have an overall policy review timetable and are currently updating the 'organisational change' policy. The Recruitment Toolkit is scheduled to be reviewed later in the year.	HR Manager	30/08/18	31/12/20	Aug 18: This is now proposed as part of the recruitment strategy work plan and will be the last item in 2020. The Recruitment Strategy is yet to be approved	Overdue
Management of Council Housing Voids Report No. 09.16/17 June 2017	1	The system for transferring void property keys between Housing Options and Housing Repairs should be reviewed ahead of the relocation of the Housing Repairs Service to Oakwood Hill Depot.	Med	A review of the process for transferring keys will be undertaken, both now and when the Repairs Service relocates, to consider if any time can be saved.	Assistant Director Housing Operations/ Assistant Director Housing Property/ Director of Communities	31/03/18	31/04/19	Aug 18: The movement of keys between the Repairs Service and Housing Options is yet to be reviewed again. However, this is logged as an action on the live project P150 Relocation of the Repairs Service to Oakwood Hill Depot. The revised target is in advance of the intended move in April 2019.	Overdue
Leisure Management Contract Report No. 18.17/18 May 2018	4.4	The financial monitoring and contract payment process should be documented to ensure business continuity.	Med	The processes will be documented and stored on the common drive.	Leisure Contract Manager in conjunction with the Assistant Director Accountancy	30/06/18	30/12/18	June/Aug 18: This has been delayed due to resource issues. A job description and person specification for an administrative assistant is currently being drafted.	Overdue

EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 03 September 2018

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
Payroll Report No. 22.17/18 April 2018	3	The new electronic new starter forms should incorporate an in-built application control that mandates the completion of all fields in the form prior to submission. The HR Team should raise this at the next project development meeting (or equivalent forum).	Low	A form is in the process of being developed with ICT. It will need thorough testing before implementation	HR Manager, People Team	31/08/18	28/02/19	Aug 18: This will be done as part of the proposed recruitment strategy work plan. This is due to start in November 2017 and complete in February 2018. The Recruitment Strategy is yet to be approved.	Overdue

Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
 - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
 - advancing equality of opportunity between people who share a protected characteristic and those who do not,
 - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
 - age
 - disability
 - gender
 - gender reassignment
 - marriage/civil partnership
 - pregnancy/maternity
 - race
 - religion/belief
 - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. 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

Section 1: Identifying details

Your function, service area and team: **Internal Audit, Governance Directorate**

If you are submitting this EqlA on behalf of another function, service area or team, specify the originating function, service area or team: **N/A**

Title of policy or decision: **Internal Audit Monitoring Report**

Officer completing the EqlA: Tel: **01992 564449** Email: **slinsley@eppingforestdc.gov.uk**

Date of completing the assessment: **03/09/18**

Section 2: Policy to be analysed

2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? N/A - report is an update to Audit and Governance Committee on the work of Internal Audit Service
2.2	<p>Describe the main aims, objectives and purpose of the policy (or decision): For Audit and Governance Committee to note the work of Internal Audit Service between July and September 2018</p> <p>What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? N/A – Report is for noting only</p>
2.3	<p>Does or will the policy or decision affect:</p> <ul style="list-style-type: none">• service users• employees• the wider community or groups of people, particularly where there are areas of known inequalities? <p>N/A</p> <p>Will the policy or decision influence how organisations operate? N/A – report is not decision-based, it is for noting only.</p>
2.4	<p>Will the policy or decision involve substantial changes in resources? N/A – report is for noting only</p>
2.5	<p>Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? N/A</p>

Section 3: Evidence/data about the user population and consultation¹

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	What does the information tell you about those groups identified? N/A – report is for noting only
3.2	Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision? N/A – as above
3.3	If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary: N/A – as above

Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

Description of impact	Nature of impact Positive, neutral, adverse (explain why)	Extent of impact Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

Section 5: Conclusion

		Tick Yes/No as appropriate	
5.1	Does the EqlA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No <input checked="" type="checkbox"/>	
		Yes <input type="checkbox"/>	If ' YES ', use the action plan at Section 6 to describe the adverse impacts and what mitigating actions you could put in place.

Section 6: Action plan to address and monitor adverse impacts

What are the potential adverse impacts?	What are the mitigating actions?	Date they will be achieved.

Section 7: Sign off

**I confirm that this initial analysis has been completed appropriately.
(A typed signature is sufficient.)**

Signature of Head of Service: Sarah Marsh

Date: 03/09/18

Signature of person completing the EqlA: Sue Linsley

Date: 03/09/18

Advice

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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Report to: Audit & Governance Committee



**Epping Forest
District Council**

Report reference: AGC-009-2018/19

Date of meeting: 24 September 2018

Portfolio: Finance

Subject: Annual Outturn Report on the Treasury Management and Prudential Indicators for 2017/18.

Responsible Officer: John Bell (01992 564387).

Democratic Services Officer: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- (1) To consider how the risks associated with Treasury Management have been dealt with during 2017/18; and**
- (2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee.**

Executive Summary:

The annual treasury management outturn report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2017/18 and confirms that there were no breaches of policy during the year.

The risks associated with the treasury function are highlighted within the report along with how these risks were managed during the year.

Reasons for Proposed Decision:

The proposed decision is necessary in order to show that the risks associated with the treasury strategy were managed during the year and to comply with the requirements of the CIPFA Code of Practice on Treasury Management on reporting on the performance of the treasury activity.

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 reporting on the treasury outturn on the financing and investment activity for the previous year.
2. The report attached at appendix 1 shows the Treasury Management Outturn Report for 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 had planned to borrow to finance the capital programme. However, an underspend on the programme and the availability of sufficient cash has allowed the external borrowing to be deferred. The outturn capital programme is shown below in the table:

Capital Expenditure	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
Non-HRA capital expenditure	10.747	17.010	17.475
HRA capital expenditure	28.064	23.144	20.455
Total Capital expenditure	38.811	40.124	37.930
Financed by:			
Capital grants	1.000	0.666	0.788
Capital receipts	10.999	5.341	8.350
Revenue	24.128	17.732	15.553
Borrowing (including Internal)	2.684	16.385	13.239
Total resources Applied	38.811	40.124	37.930
Closing balance on:			
Capital Receipts	0.198	4.136	0
Major Repairs Reserve	2.149	9.134	11.693

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve the transfer of HRA depreciation for the year.
6. The risk involved with the Capital Activity is the impact on reducing the balances of financial reserves to support the capital programme. This risk has the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and Council Tax increases required.
7. The table above shows the movements on the Capital Receipts and Major Repairs Reserve. This shows that the balance on the Capital Receipts Reserve has been fully

utilised in supporting the capital programme, but resources are available via the Major Repairs Reserve. Whilst it has been possible to avoid external borrowing in 2017/18 this may be required later in 2018/19.

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. The Council has borrowed £185.456m to finance the payment to Government for Housing Self-Financing. This resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing was incurred in 2017/18.

CFR	Original 31-Mar-18 £m	Revised 31-Mar-18 £m	Actual 31-Mar-18 £m
Non-HRA	52.3	50.0	52.0
HRA	155.1	155.1	155.1
Closing balance	207.4	205.1	207.1

9. The Council did not breach the Authorised Limit (set at £250m for 2017/18) or the Operational Boundary (set at £240m for 2017/18) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this was achieved through the Council producing a viable thirty-year financial plan. This plan continues to be reviewed quarterly by officers and half yearly reports are presented to the Communities Select Committee. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. Only 17% of the amount borrowed in 2011/12 was at a variable rate, the remainder were fixed at preferential rates. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid on maturity and any borrowing to support future capital expenditure can easily be obtained from other local authorities or the Public Works Loans Board.

The Council's treasury position

11. The table below shows the Council's level of balances for 2017/18.

Treasury position	Original 31-Mar-2018 £m	Revised 31-Mar-18 £m	Actual 31-Mar-18 £m
Usable Reserves	41.7	42.2	42.2
Working Capital	2.0	2.0	0.1

12. 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.

13. The Council did not breach any of the following indicators:

- a) The Maximum Upper Limit for Fixed Rate Exposure during 2017/18 was 83%

for Debt and 35% for Investments (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2016/17 was 17% on Debt and 65% on Investments (limit set at 25% and 75% respectively);

- b) The maximum amount of the portfolio being invested for longer than 364 days was £0m (limit set at £15m); and
- c) The maximum limit set for investment exposure per country outside of the UK was £5m. Average £2m in Sweden. Standard Life MMF is domiciled in Guernsey, so is also Non-UK. Average £5m.

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

- a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors.
- b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Chief Finance Officer has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.
- c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 75% of its investments to 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.

Summary

15. The Council has continued to finance its capital programme through the use of internal resources. Whilst the capital receipts reserve has been fully exhausted, it is anticipated that future right to buy sales will fund some part of the programme, and the Major Repairs Reserve will be available to support the on-going capital maintenance of the housing stock, before the possible need to borrow arises towards the end of 2018/19. The Council did not breach any of the treasury prudential indicators during the year.

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 or subsequently);
- 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:

The report on the Council's Prudential Indicators for 2017/18 and the Treasury Management Strategy for 2017/18 to 2019/20 went to Council on 21 February 2017.

Risk Management:

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

Due Regard Record

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

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

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

Treasury Management Outturn Report 2017/18

Introduction

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority's treasury management strategy for 2017/18 was approved at a meeting on 21 February 2017. The Authority 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 Authority's treasury management strategy.

External Context

Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central

Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

Local Authority Regulatory Changes

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

A capital strategy is in the process of being produced and will be available for Member approval at the

same time as the updated Treasury Management Strategy in February 2019.

In the 2017 Treasury Management Code the definition of ‘investments’ has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to “put aside revenue over time to cover the CFR”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3 January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

On 31st March 2018, the Authority had net borrowing of £162.9m arising from its revenue and capital income and expenditure, an increase on 2017 of £21.1m. 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. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
General Fund CFR	31.0	22.1	53.1
HRA CFR	154.0	0.0	154.0
Total CFR	185.0	22.1	207.1
Less: Internal Borrowing	0.0	-22.1	-22.1
Borrowing CFR	185.0	0.0	185.0
Less: Usable reserves	-43.9	1.7	-42.2
Less: Working capital	-2.0	1.9	-0.1
Net worth	139.1	3.6	143.2

Table 2: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %
Long-term borrowing	185.5	0.0	185.5	2.97
Total borrowing	185.5	0.0	185.5	
Long-term investments	2.4	-0.8	1.6	4.18
Short-term investments	25.0	-17.0	8.0	0.46
Cash and cash equivalents	16.3	-3.3	13.0	0.28
Total investments	43.7	-21.1	22.6	
Net borrowing	141.8	-21.1	162.9	

Note: the figures in the tables are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

Net borrowing has increased due to falls in usable reserves and working capital. As investment balances are being used to fund the capital programme no additional borrowing was required.

The Authority's current strategy is to maintain a minimum investment balance of £10m with a view to borrowing to fund the rest of the house building programme probably later in 2018. The treasury management position as at 31 March 2018 and the year-on-year change in show in table 2 above.

Borrowing Activity

Table 3: Borrowing Position

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* years
Public Works Loan Board	185.5	0.0	185.5	2.97	18.97

*Weighted average maturity

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In furtherance of these objectives, no new borrowing was undertaken in 2017/18 as the capital programme has been funded using available internal resources. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

Investment Activity

The Authority holds significant invested funds, representing balances and reserves held. During 2016/17, the Authority's investment balances have been falling due to funding the capital programme. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* days
Loan to Waste Collection Contractor	2.4	-0.7	1.7	4.2	39.8
Banks & building societies (unsecured)	16.3	-9.3	7.0	0.5	3.4
Government (incl. local authorities)	15.0	-10.0	5.0	0.4	18.2
Money Market Funds	10.0	0.0	10.0	0.4	1.0
Total investments	43.7	-20.0	23.7		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has kept investment balances short term in line with the cash flow so as to enable funds to be available when required by operational and capital requirements.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	3.97	AA-	60%	47	0.99%
30.06.2017	3.98	AA-	66%	45	0.89%
30.09.2017	4.31	AA-	64%	40	0.89%
31.12.2017	4.23	AA-	61%	41	0.92%
31.03.2018	4.03	AA-	55%	35	1.05%
All LAs	4.12	AA-	61%	98	1.37%

*Weighted average maturity

The table above shows how the Council is performing with its investments, and as can be seen performance is commensurate with other Local Authorities, with the exception of the Rate of Return. This is due to this Council keeping investments shorter, 47 days invested against other Local Authorities 137 days, which gives rise to lower interest rates received.

The Council set itself targets of 7 or below for the credit score and A- or higher for the credit rating and the table above shows both these targets were achieved.

Financial Implications

The outturn for debt interest paid in 2017/18 was £5.5 million on an average debt portfolio of £185.5 million against a budgeted £5.5 million on an average debt portfolio of £185.5 million at an average interest rate of 2.97%.

The outturn for investment income received in 2017/18 was £100,895 on an average debt portfolio of £22.6 million against a budgeted £102,890 on an average investment portfolio of £26 million at an average interest rate of 0.39%.

Other Non-Treasury Holdings and Activity

Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Authority holds £1.58m of investments in the Waste Collection and Street Cleansing contractor's vehicles. This would enable the Council to have first call on the vehicles if the contractor was to enter receivership and enable it to carry on the services without further costs being incurred. The value represents a decrease of £0.8m on the previous year due to repayments being made by the contractor.

A register of assets purchased with the loans is maintained on the asset management system and reviewed annually as part of the Authority's performance reporting arrangements.

These non-treasury investments generated £99,000 of investment income for the Authority after taking account of direct costs, representing a rate of return of 4.2%. This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £'000	Budget £'000	Over/ (under)	Actual %	Benchmark %
Temporary Loan Interest	58.8	68.7	9.9	0.39%	0.38%
Money Market Funds Interest	42.1	34.2	(7.9)	0.32%	0.19%
Loan to Contractor	99.0	99.0	0.0	5.00%	5.00%
Total investments	100.9	102.9	2.0		
Fixed Rate Interest	5,348.3	5,348.3	0.0	3.48%	3.48%
Variable Rate Interest	161.4	175.7	(14.3)	0.50%	0.48%
Total debt	5,509.7	5,524.0	(14.3)		
GRAND TOTAL	5,408.8	5,421.1	(12.3)	n/a	n/a

Compliance Report

The Assistant Director of Resources is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2017/18 Maximum £m	31.3.18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	185.5	185.5	240.0	250.0	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and is not counted as a compliance failure.

Table 8: Investment Limits

	2017/18 Maximum	31.3.18 Actual	Complied
Any single organisation, except the UK Central Government	£5m (each)	£5m (Lloyds and Santander)	✓
UK Central Government	Unlimited	Nil	✓
Local Authorities	£25m (in total)	£15m	✓
Any group of organisations under the same ownership	£5m (per group)	£5m (Lloyds)	✓
Any group of pooled funds under the same management	£10m (per manager)	Nil	✓

Negotiable instruments held in a broker's nominee account	£15m (per broker)	£6m BGC Partners	✓
Foreign countries	£5m (per Country)	Nil	✓
Registered Providers	£10m (in total)	Nil	✓
Unsecured investments with Building Societies	£5m (in total)	£1m	✓
Loans to unrated corporates	£5m	Nil	✓
Money Market Funds	£20m (in total)	£19m	✓

Treasury Management Indicators

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

Security: The Authority 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.

	31.3.18 Actual	2017/18 Target	Complied
Portfolio average credit rating	A-	A-	✓

Liquidity: The Authority 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.

	31.3.18 Actual	2017/18 Target	Complied
Total cash available within 3 months	£15m	£15m	✓

Interest Rate Exposures: This indicator is set to control the Authority'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 was:

	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	82.86%	100%	✓
Upper limit on variable interest rate exposure	17.14%	75%	✓

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

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

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	0%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓
10 years and above	100%	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 Authority'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 were:

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