



MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 20 JANUARY 2016
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor W Mortimer (Chairman)
Councillors J Cartwright, B Deering, I Devonshire, P Kenealy, P Phillips
and S Stainsby

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DISCLOSABLE PECUNIARY INTERESTS

1. A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:
 - must not participate in any discussion of the matter at the meeting;
 - must not participate in any vote taken on the matter at the meeting;
 - must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
 - if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
 - must leave the room while any discussion or voting takes place.

2. A DPI is an interest of a Member or their partner (which means spouse or civil partner, a person with whom they are living as husband or wife, or a person with whom they are living as if they were civil partners) within the descriptions as defined in the Localism Act 2011.

3. The Authority may grant a Member dispensation, but only in limited circumstances, to enable him/her to participate and vote on a matter in which they have a DPI.

4. It is a criminal offence to:

- fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register;
- fail to notify the Monitoring Officer, within 28 days, of a DPI that is not on the register that a Member disclosed to a meeting;
- participate in any discussion or vote on a matter in which a Member has a DPI;
- knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a DPI or in disclosing such interest to a meeting.

(Note: The criminal penalties available to a court are to impose a fine not exceeding level 5 on the standard scale and disqualification from being a councillor for up to 5 years.)

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Everyone is welcome to record meetings of the Council and its Committees using whatever, non-disruptive, methods you think are suitable, which may include social media of any kind, such as tweeting, blogging or Facebook. However, oral reporting or commentary is prohibited. If you have any questions about this please contact Democratic Services (members of the press should contact the Press Office). Please note that the Chairman of the meeting has the discretion to halt any recording for a number of reasons, including disruption caused by the filming or the nature of the business being conducted. Anyone filming a meeting should focus only on those actively participating and be sensitive to the rights of minors, vulnerable adults and those members of the public who have not consented to being filmed.

AGENDA

1. Training item - Risk Management

2. Apologies

To receive apologies for absence.

3. Minutes (Pages 5 - 12)

To confirm the Minutes of the meeting held on 25 November 2015.

4. Chairman's Announcements

5. Declarations of Interest

To receive any Member's Declarations of Interest.

6. External Audit - Grants Claim Certification Work 2014/15

To follow.

7. Treasury Management Strategy Statement 2016/17 (Pages 13 - 44)

8. Shared Internal Audit Service - Audit Plan Update Report (Pages 45 - 64)

9. Update on Implementation of Annual Governance Statement Action Plan
(Pages 65 - 74)

10. Audit Committee Work Programme (Pages 75 - 80)

11. Urgent Business

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 25
NOVEMBER 2015, AT 7.00 PM

PRESENT: Councillor W Mortimer (Chairman)
Councillors J Cartwright, I Devonshire,
P Kenealy and S Stainsby.

ALSO PRESENT:

Councillors A Alder and G Williamson.

OFFICERS IN ATTENDANCE:

| | |
|--------------------|--|
| Lorraine Blackburn | - Democratic Services Officer |
| Chris Gibson | - Head of Governance and Risk Management |
| Philip Gregory | - Head of Strategic Finance |
| Nicola Munro | - Principal Accountant |
| Adele Taylor | - Director of Finance and Support Services |

ALSO IN ATTENDANCE:

| | |
|--------------|--------------------|
| Alan Simkins | - King and Shaxson |
| Paul Turner | - King and Shaxson |

423 TRAINING ITEM - TREASURY MANAGEMENT:
PRESENTATION BY KING AND SHAXSON

Members were given a Treasury Management Training presentation by King and Shaxson, a company with over 150 years' experience and 237 Local Authority clients. The

company was a leading supplier of transferable securities and had £3.75bn assets under its custody (as at 31 October 2015).

Mr Turner and Mr Simkins provided Members with an overview of what transferable securities and investments were available to Local Authorities and what the Council's options were.

The Chairman, on behalf of Members thanked King and Shaxson for their informative summary.

The Committee received the presentation.

RESOLVED – that the presentation be received.

424 APOLOGIES

Apologies for absence were submitted Councillors B Deering and P Phillips. The Council's new External Auditors, EY also submitted their apologies.

425 MINUTES

The Director of Finance and Support Services referred to the meeting on 15 July 2015 when Councillor B Deering raised an issue regarding pensions. The Director explained that she now had this information and would forward this to him. She apologised that this had not been referred to in the Minutes or picked up at the time.

RESOLVED - that the Minutes of the meeting held on 23 September 2015 be confirmed as a correct record and signed by the Chairman.

426 TREASURY MANAGEMENT STRATEGY - 2015/16 MID YEAR REVIEW

The Executive Member for Finance submitted a report setting out the Council's Treasury Management activities for the six months to 30 September 2015. The Head of Strategic Finance referred Members to the background of the economy,

how this had affected the current financial cycle and its effects on the Council's investments. He provided a summary of the report and supporting essential reference papers.

The Chairman stated that in relation to Property Investment Funds, the average rental return was 3.0%.

The Committee received the report.

RESOLVED – that (A) the loan and investment position as at 30 September 2015 be noted;

(B) the Prudential Indicator position as at 30 September 2015 be noted; and

(C) the changes on credit rating methodology be noted.

427 EXTERNAL AUDIT REPORT - 2014/15 ANNUAL AUDIT LETTER

The Director of Finance and Support Services explained that the Council's former External Auditor (Grant Thornton), had submitted their apologies for absence.

The External Auditors had submitted a report setting out the key messages, issues and recommendations arising from work which had been carried out for the year ended 31 March 2015, the detail of which was set out in the report. Key findings were also reported to Audit Committee on 23 September 2015.

The Director of Finance and Support Services advised that Grant Thornton had issued an unqualified Value for Money conclusion on 30 September for the period 2014/15 and that there were no changes to that view.

The Committee received the report.

RESOLVED – that the report be received.

428 COUNCIL'S RESPONSE TO 2014/15 ANNUAL AUDIT LETTER

The Executive Member for Finance and Support Services submitted a report setting out the proposed response from the Council to the issues and recommendations raised in the Annual Audit Letter 2014/15, the detail of which was set out in the report.

The Director of Finance and Support Services confirmed that following the work undertaken by Grant Thornton UK LLP, no issues had been raised in the Annual Audit Letter but three recommendations had been made to the Council to:

- Review the asset management system;
- Consider preventing access rights to prevent the same individual initiating and authorising purchase orders; and
- Consider how the volume and significant of self- authorised journals could be reduced.

The suggested response from the Council to the recommendations was detailed in the report. In relation to the Asset Management System, the Director explained that this issue was being addressed in the Annual Governance Statement. In terms of the other two issues, Officers had reviewed controls and were satisfied with what was currently in place, given the size of the Council.

The Committee agreed the response to the Annual Audit Letter, as now detailed.

RESOLVED – that the response to the Annual Audit Letter, as now detailed be agreed.

429 EXTERNAL AUDIT - AUDIT FEES FOR 2015/16

The External Auditor Ernst and Young LLP submitted a letter setting out their indicative audit fees (£52,331) and certification fees (£8,316) for 2015/16.

The Committee noted and agreed the level of audit and certification fees.

RESOLVED – that the contents of the letter setting out the audit and certification fees be agreed.

430 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Director of Finance and Support Services submitted a report which provided an update on the measures included in the 2014/15 statement to enhance the Council's internal control framework during 2015/16, the detail of which was set out in the report.

The Head of Governance and Risk Management summarised the position statements detailed within the report. The Head of Governance and Risk Management drew Members' attention to the fact that SMART actions had been identified for the Asset Management Plan, which would be reported to the Executive by March 2016 and for the development of a District Plan, which had a target date for adoption of May 2017. No clear timelines had yet to be identified of the impact of impending legislation regarding the Welfare Reform changes on the Council and its residents.

In response to a query from Councillor J Cartwright regarding the "Amber" status of the Annual Governance Statement and the cautionary approach being taken, the Head of Governance and Risk Management explained that actions could not be shown as "Green" until they had been achieved.

In response to a query from Councillor P Kenealy in relation to SMART Targets and the need to establish a completion date in respect of the Asset Management IT System Procurement, the Director of Finance and Support Services explained that this was a significant piece of work to be undertaken with a long term view as such it was difficult to provide a completion date. It was suggested that Officers could report back to the meeting on 20 January 2016. This was supported.

The Head of Governance and Risk Management referred to

the impact on the Asset Management Plan following the purchase of the Old River Lane site which would be reported to Members at the next meeting.

A Member raised a query regarding the Chancellor of the Exchequer's recent statement in relation to Councils' using their reserves. The Director of Finance and Support Services stated that she had not had an opportunity to analyse the impact of his statement in terms of reserves and that this would be assessed in terms of the Medium Term Finance Plan when the Director would be providing an opinion on the adequacy of the Council's reserves and how this fit in with the Council's long term plans. She explained the purpose of earmarked reserves.

Members noted the progress made in implementing the action plan contained in the 2014/15 Annual Governance Statement as submitted.

RESOLVED – that (A) the progress made in implementing the action plan contained in the 2014/15 Annual Governance Statement be received; and

(B) the SMART target attached to the actions as now submitted, be approved; and

(C) Officers report back in January 2016, on the progress of the Asset Management IT System.

431 RISK MANAGEMENT MONITORING REPORT 1 JULY 2015
TO 30 SEPTEMBER 2015

The Executive Member for Finance and Support Services submitted a report on the actions taken to mitigate and control strategic risks during the period July to September 2015.

The Head of Governance and Risk Management advised that two new risks had been introduced; safeguarding adults and the Old River Lane Bishop's Stortford site, the latter would be included in the register for the period October to December and reported to Audit Committee in

March 2016.

In response to a query from the Chairman regarding 15SR6 (Availability and performance of IT Systems and resources impacting on service delivery), the Director of Finance and Support Services explained that it was shown as high impact and high likelihood on the matrix as IT was the life-blood of the organisation. She explained that the Council had been investing heavily in networks and telephony and expected those issues to reduce and mitigate the Council's risk.

The Director of Finance and Support Services explained how the Council's data was backed up at two separate sites and referred to an unfortunate incident when a cable between those two sites had been cut.

In response to a query from Councillor I Devonshire, the Director of Finance and Support Services explained the processes in place to cope with power cuts and that tests were conducted in respect of back-up power supplies.

The Committee approved the report as now detailed.

RESOLVED – that the actions taken to mitigate and control strategic risks be approved.

432 AUDIT COMMITTEE WORK PROGRAMME

The Director of Finance and Support Services submitted a report detailing the proposed work programme for Audit Committee.

The Head of Governance and Risk Management suggested that Risk Management training be included as a training item for the meeting on 20 January 2016 in advance of the Risk Management Strategy being considered by Members at the March Audit Committee. This was supported.

The Chairman asked that Members email him regarding requests for further training.

RESOLVED – that the work programme, as now amended, be approved

The meeting closed at 8.10 pm

| |
|----------------|
| Chairman |
| Date |

EAST HERTS COUNCIL

JOINT MEETING OF SCRUTINY COMMITTEES – 19 JANUARY 2016

AUDIT COMMITTEE – 20 JANUARY 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2016-17

WARDS AFFECTED: All

Purpose/Summary of Report

- This report sets out proposals for Council approval on the following:
 - The Treasury Management Strategy and Annual Investment Strategy for 2016-17 including the 2016-17 Prudential Indicators

| | |
|--|---|
| <u>RECOMMENDATIONS FOR JOINT SCRUTINY AND AUDIT COMMITTEE:</u> | |
| That, in relation to the following items: | |
| (A) | The Treasury Management Strategy and Annual Investment Strategy, paragraphs 2.1 – 2.2; |
| (B) | The Prudential Indicators, paragraph 2.3; |
| (C) | The counterparty and approved countries listing in paragraph 2.4; |
| The Executive be advised that the Joint Meeting of Scrutiny and Audit Committees has considered items (A), (B) and (C) and has no comments to make. | |

1 Background

- 1.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'
- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (the Code) recommends that Members be updated on treasury management activities regularly through the Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and mid and year end reports. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 The Council is required by the CIPFA Treasury Management Code of Practice to approve a Treasury Management Strategy and Annual Investment Strategy each year. The purpose of the Strategy is to ensure that there is adequate cash flow to fund the Council's revenue and capital aspirations in both short and longer term.
- 1.3 The Strategy sets out a risk management policy for the investment of surplus cash. The Strategy is designed to obtain the highest possible yield, contingent upon investments being secure, and there being sufficient liquidity to meet the Council's daily cash needs.
- 1.4 The Council is required by the CIPFA Prudential Code to approve each year a set of Prudential Indicators. The Indicators must be approved by Full Council before the beginning of each financial year. Their purpose is to help the Council ensure that its capital investment plans are affordable, prudent and sustainable.

2 Report

- 2.1 Please refer to the recommended Treasury Management Strategy and Annual Investment Strategy in **Essential Reference Paper 'B': Treasury Management Strategy and Annual Investment Strategy 2016-17**.
- 2.2 There have been no additional regulatory changes since those that were included in the revised Treasury Management Strategy

submitted to the Audit Committee on 21 January 2015. No additional changes to the 2016-17 Strategy have been proposed.

2.3 Prudential Indicators are included in **Essential Reference Paper 'B'**: Treasury Management Strategy and Annual Investment Strategy 2015-16 paragraphs 2.1, 2.2, 2.4, 2.6, 2.7, 3.1, 3.2 and 3.4.

2.4 Please refer to the recommended counterparty and approved countries for investments listings in **Essential Reference Paper 'B'**:

Appendix 5.1. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Credit Rating Tables 2015-16.

This is an updated format recommended by our Treasury Advisors Capita Asset Services. Instruments that are no longer in the market have been removed. There have been no further changes to listing provided with the Treasury Management Strategy 2015-16 submitted to the Audit Committee on 21 January 2015.

Appendix 5.2. Approved countries for investments

2.4 The Treasury Management Strategy also includes the Council's Minimum Revenue Provision (MRP) policy. The Strategy recommends that the Council continue to have a nil MRP.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

CIPFA Code of Practice on Treasury Management (2011)

CIPFA Prudential Code for Capital Finance in Local Authorities (2013)

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

| | |
|--|---|
| <p>Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):</p> | <p>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</p> <p>This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.</p> <p>Place – Safe and Clean</p> <p>This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean.</p> <p>Prosperity – Improving the economic and social opportunities available to our communities</p> <p>This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.</p> |
| <p>Consultation:</p> | <p>Not Applicable</p> |
| <p>Legal:</p> | <p>The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.</p> <p>The report fulfils the following legislative requirements:</p> <ul style="list-style-type: none"> • Reporting of prudential Indicators in line with the requirements of the CIPFA Code of Practice. • Reporting to those charged with governance a mid-year treasury management report. |
| <p>Financial:</p> | <p>Within the body of the report.</p> |
| <p>Human Resource:</p> | <p>Not Applicable.</p> |

| | |
|--|--------------------------------|
| Risk Management: | Within the body of the report. |
| Health and wellbeing – issues and impacts: | Not Applicable. |

East Herts District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement
and Annual Investment Strategy

2016/17 to 2018/19

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1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and Joint Meeting of Scrutiny Committees.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the S151 officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Treasury Management training has been undertaken by members of the audit committee on 25th November 2015 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

| Capital expenditure | 2014/15 Actual £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 |
|---------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total | 1,859 | 23,365 | 5,160 | 2,258 | 1,992 | 2,000 |

Other long term liabilities. The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| Capital expenditure | 2014/15 Actual £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 |
|--|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total | 1,859 | 23,365 | 5,160 | 2,258 | 1,992 | 2,000 |
| Financed by: | | | | | | |
| Capital receipts | 1,132 | 2,387 | 1,640 | 1,270 | 800 | 500 |
| Capital grants | 459 | 293 | 293 | 293 | 293 | 293 |
| Capital reserves | 243 | 238 | 14 | 360 | - | - |
| Revenue | 25 | 981 | 25 | 25 | 25 | 25 |
| Net financing need for the year | 0 | 19,466 | 3,188 | 310 | 874 | 1,182 |

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £888k of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

| £m | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2018/19 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement | | | | | | |
| Total CFR | (43,082) | (23,904) | (21,012) | (21,008) | (20,134) | (18,952) |
| Movement in CFR | (280) | 19,178 | 2,892 | 4 | 874 | 1,182 |
| Movement in CFR represented by | | | | | | |
| Net financing need for the year (above) | 0 | 19,466 | 3,188 | 310 | 874 | 1182 |
| Less MRP/VRP and other financing movements | (280) | (288) | (296) | (306) | 0 | 0 |
| Movement in CFR | (280) | 19,178 | 2,892 | 4 | 874 | 1,182 |

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Following the disposal of the Council's Housing Stock and the retention of outstanding debt, the Council has a negative CFR. MRP has therefore been set as nil.

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

For authorities which participate in LAMS, LAPP or CSB using the cash backed option, the mortgage lenders require a 5 year cash advance from the local authority to match the 5 year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position should be reviewed on an annual basis.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources £m | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Fund balances / reserves | 18,986 | 15,545 | 14,362 | 14,148 | 14,138 | 14,080 |
| Capital receipts | 1,275 | 0 | 0 | 0 | 0 | 0 |
| Provisions | 2,675 | 2,675 | 2,675 | 2,675 | 2,675 | 2,675 |
| Other | (2,969) | (3,142) | (3,142) | (3,142) | (3,342) | (3,342) |
| Total core funds | 19,967 | 15,078 | 13,895 | 13,681 | 13,471 | 13,413 |
| Working capital* | (703) | (703) | (703) | (703) | (703) | (703) |
| Under/over borrowing | 50,582 | 31,404 | 28,512 | 28,008 | 27,364 | 26,452 |
| Expected investments | 69,846 | 45,779 | 41,704 | 40,986 | 40,132 | 39,162 |

* Working capital balances shown are estimated year end; these may be higher mid-year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| % | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|-------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Ratio | 4.54 | 4.70 | 4.81 | 4.68 | 4.47 | 4.32 |

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

| £ | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Council tax - band D | 12.51 | 30.39 | 12.36 | 12.13 | 11.85 | 11.73 |

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £m | 2014/15 Actual £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 |
|--|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| External Debt | | | | | | |
| Debt at 1 April | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Expected change in Debt | 0 | 0 | 0 | 0 | 0 | 0 |
| Other long-term liabilities (OLTL) | 0.9 | 0.6 | 0.3 | 0 | 0 | 0 |
| Expected change in OLTL | 0 | 0 | 0 | 0 | 0 | 0 |
| Actual gross debt at 31 March | 8.4 | 8.1 | 7.8 | 7.5 | 7.5 | 7.5 |
| The Capital Financing Requirement | (43,082) | (23,904) | (21,012) | (21,008) | (20,134) | (18,952) |
| (Under) / over borrowing | (43,073.6) | (23,895.9) | (21,004.2) | (21,000.5) | (20,126.5) | (18,944.5) |

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| Operational boundary | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 | 2018/19 Estimate £'000 |
|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Debt | 9 | 9 | 9 | 9 |
| Other long term liabilities | 1 | 1 | 1 | 1 |
| Total | 10 | 10 | 10 | 10 |

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

| Authorised limit £m | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | 12 | 12 | 12 | 12 |
| Other long term liabilities | 1 | 1 | 1 | 1 |
| Total | 13 | 13 | 13 | 13 |

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

| Capita Asset Services Interest Rate View | | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
| Capita Asset Services View | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 2.00% | 2.00% | 2.00% |
| 5yr PWLB Rate | 2.30% | 2.40% | 2.60% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% | 3.40% | 3.50% | 3.50% | 3.60% |
| 10yr PWLB View | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% |
| 25yr PWLB View | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.30% | 4.40% | 4.40% | 4.40% | 4.50% |
| 50yr PWLB Rate | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.20% | 4.20% | 4.30% | 4.30% | 4.30% | 4.40% |

UK: UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England

Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA: The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 2.1% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

EZ: In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece: During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

Any decisions will be reported to Executive/Council at the next available opportunity.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

| £m | 2016/17 | 2017/18 | 2018/19 |
|---|--------------|--------------|--------------|
| Interest rate exposures | | | |
| | Upper | Upper | Upper |
| Limits on fixed interest rates based on net debt | 100% | 100% | 100% |
| Limits on variable interest rates based on net debt | 50% | 50% | 50% |
| Maturity structure of fixed interest rate borrowing 2016/17 | | | |
| | | | |
| Under 12 months | | | 0% |
| 12 months to 2 years | | | 0% |
| 2 years to 5 years | | | 80% |
| 5 years to 10 years | | | 0% |
| 10 years to 20 years | | | 0% |
| 20 years to 30 years | | | 0% |
| 30 years to 40 years | | | 20% |
| 40 years to 50 years | | | 0% |
| Maturity structure of variable interest rate borrowing 2016/17 | | | |
| | | | |
| Under 12 months | | | 0% |
| 12 months to 2 years | | | 0% |
| 2 years to 5 years | | | 0% |
| 5 years to 10 years | | | 0% |
| 10 years to 20 years | | | 0% |
| 20 years to 30 years | | | 0% |
| 30 years to 40 years | | | 0% |
| 40 years to 50 years | | | 0% |

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA+. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in **Appendix 5.1** under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow:** 5 years *
- **Dark pink:** 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- **Light pink:** 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5

- **Purple:** 2 years
- **Blue:** 1 year (only applies to nationalised or semi nationalised UK Banks)
- **Orange:** 1 year
- **Red:** 6 months
- **Green:** 100 days
- **No colour:** not to be used

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|------------|------------|------------|------------|-----------|-----------|-------------|---------------|-----------|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i. Short Term – F1
 - ii. Long Term – A-
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
 - Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
 - Building societies - The Council will use all societies which meet the ratings for banks outlined above;
 - Money market funds (MMFs) – AAA
 - Enhanced money market funds (EMMFs) - AAA
 - UK Government (including gilts, Treasury Bills and the DMADF)
 - Bonds issued by a financial institution which is guaranteed by the UK government.
 - Sovereign bond issues (i.e. other than the UK Government)
 - Local authorities, parish councils etc.
 - Supranational institutions
 - Local Authority Mortgage Scheme (LAMS), Local Authority Partnership Purchase Scheme (LAPP) and Custom Build and Self Build Scheme (CSB). These are classified as being policy investments, rather than a treasury management investment, and are therefore outside of the specified / non specified categories.
 - Corporate Bonds
 - Floating Rate Notes
 - Property Funds

A limit of 60% will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

| | Fitch Long term Rating (or equivalent) | Money and/or % Limit | Time Limit |
|---|---|--|----------------------|
| Banks 1 higher quality | AAA | £10m / 80% | 5yrs |
| Banks 1 medium quality | AA- | £10m / 75% | 1yr |
| Banks 1 lower quality | A- | £10m / 70% | 100 Days |
| Banks 2 – part nationalised | N/A | £20m / 75% | 1yr |
| Limit 3 category – Council's banker (not meeting Banks 1) | N/A | N/A | 1 day |
| Other institutions limit | - | £10m / 70% | 1yr |
| DMADF | AAA | unlimited | 6 months |
| Local authorities | N/A | unlimited / 60% | 5yrs |
| | Fund rating | Money and/or % Limit | Time Limit |
| Money market funds | AAA | unlimited | liquid |
| Enhanced money market funds | AAA | unlimited | liquid |
| Property Funds | Based on external credit assessment by the Council's Treasury Management Advisors. UK asset investment. | £20 million at fund entry. Maximum of two Funds at any one time for viability. | Long Term investment |

The proposed criteria for specified and non-specified investments are shown in **Appendix 5.1** for approval.

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 5.2**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than 20% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17: 1.00%
- 2017/18: 1.75%
- 2018/19: 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2016/17: 0.90%
- 2017/18: 1.50%
- 2018/19: 2.00%
- 2019/20: 2.25%
- 2020/21: 2.50%
- 2021/22: 3.00%
- 2022/23: 3.00%
- Later years: 3.00%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested > 364 days | | | |
|--|----------------|----------------|----------------|
| £m | 2016/17 | 2017/18 | 2018/19 |
| Principal sums invested > 364 days | £30m | £30m | £30m |

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 1, 3, 6 or 12 month LIBID uncompounded.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 APPENDICES

5.1 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 75% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| | Minimum credit criteria / colour band | ** Max % of total investments/ £ limit per institution | Max. maturity period |
|---|---|--|---|
| Debt Management Account Deposit facility – UK Government | N/A | 100% | 6 months |
| UK Government gilts | UK sovereign rating | 80% | 12 months |
| UK Government Treasury bills | UK sovereign rating | 80% | 12 months |
| Fixed Bonds – Corporate, Financial, Supranational or Covered. | AAA | 40% | 12 months |
| Money market funds | AAA | 100% | Liquid |
| Enhanced money market funds with a credit score of 1.25 | AAA | 100% | Liquid |
| Enhanced money market funds with a credit score of 1.5 | AAA | 100% | Liquid |
| Local authorities | N/A | 100% | 12 months |
| Term deposits with banks and building societies | Blue Orange Red Green No Colour | 80% | 12 months 12 months 6 months 100 days Not for use |

| | | | |
|--|---|------|---|
| CDs or corporate bonds with banks and building societies | Blue Orange Red Green No Colour | 50% | 12 months 12 months 6 months 100 days Not for use |
| Gilt funds | UK sovereign rating | 100% | |

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 75% will be held in aggregate in non-specified investment

1. Maturities of ANY period

| | Minimum Credit Criteria / Colour band | Use | Max % of total investments | Max. maturity period |
|--|---|----------------------------|---|---|
| Fixed term deposits with variable rate and variable maturities: -Structured deposits | Blue Orange Red Green No Colour | In-house | 80% | 12 months 12 months 6 months 100 days Not for use |
| Certificates of deposit issued by banks and building societies | Blue Orange Red Green No Colour | In-house and Fund Managers | 80% | 12 months 12 months 6 months 100 days Not for use |
| Fixed Bonds – Corporate, Financial, Supranational or Covered. | AAA | In-house and Fund Managers | 10% | 5 years |
| Floating rate notes | AAA | In house and Fund Managers | 10% | 5 years |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) | | | | |
| Corporate bond fund | AAA | In house and Fund Managers | 10% | 5 years |
| Property fund | Based on external credit assessment from the Council's Treasury Management Advisors. UK asset investment. | In house and Fund Managers | £20m at fund entry. Maximum of two Funds at any one time for viability. | Long Term |

2. Maturities in excess of 1 year

| | Minimum Credit Criteria / Colour Band | Use | Max % of total investments | Max. maturity period |
|--|---|----------------------------|---|---|
| Term deposits – local authorities | N/A | In-house and Fund Managers | 60% | 5 Years |
| Term deposits – banks and building societies | Blue Orange Red Green No Colour | In-house and Fund Managers | 80% | 12 months 12 months 6 months 100 days Not for use |
| Certificates of deposit issued by banks and building societies | Blue Orange Red Green No Colour | In-house and Fund Managers | 80% | 12 months 12 months 6 months 100 days Not for use |
| UK Government Gilts | UK sovereign rating | In-house and Fund Managers | 80% | 10 years |
| Fixed Bonds – Corporate, Financial, Supranational or Covered. | AAA | In-house and Fund Managers | 10% | 5 years |
| Sovereign bond issues (other than the UK govt) | AAA | Fund Managers | 50% | 10 years |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) | | | | |
| Property fund | Based on external credit assessment from the Council's Treasury Management Advisors. UK asset investment. | In house and Fund Managers | £20m at fund entry. Maximum of two Funds at any one time for viability. | Long Term |

5.2 APPENDIX: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA+ or higher and also have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Netherlands
- U.K.
- U.S.A.

Note: This list is correct as at 11 November 2015

5.3 APPENDIX: Treasury management scheme of delegation

(i) Full board / Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.4 APPENDIX: The treasury management role of the Section 151 Officer

The S151 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.



East Herts Council Audit Committee Progress Report 20 January 2016

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report;
- Approve amendments to the Audit Plan as at 1 January 2016; and
- Note the status of high priority recommendations.

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.3 High Priority Recommendations
 - 2.4 Proposed Amendments to Audit Plan
 - 2.5 Performance Management

Appendices

- A Progress against the 2015/16 Audit Plan

- B Implementation Status of High Priority Recommendations

- C Audit Plan Items (April 2015 to March 2016) – Start Dates Agreed with Management

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2015/16 as at 1 January 2016.
 - b) Proposed amendments to the approved 2015/16 Audit Plan.
 - c) Implementation status of previously agreed high priority audit recommendations.
 - d) An update on performance management information as at 1 January 2016.

Background

- 1.2 The 2015/16 Audit Plan was approved by Audit Committee on 18 March 2015.
- 1.3 The Audit Committee receives periodic updates against the Annual Internal Audit Plan, the most recent of which was brought to this Committee on 23 September 2015.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 1 January 2016, 73% of the 2015/16 Audit Plan days had been delivered. Appendix A provides a status update on each individual project within the audit plan.

2.2 Ten projects providing assurance to the Audit Committee have been finalised since the September 2015 meeting of this Committee.

| Audit Title | Date of Issue | Assurance Level | Number and Priority of Recommendations |
|------------------------------|----------------------|------------------------|---|
| Public Health Burials | Oct '15 | Full | None |
| Main Accounting (CRSA) | Oct '15 | Full | None |
| Repair and Renew Flood Grant | Oct '15 | N/A | N/A |
| Creditors | Nov '15 | Substantial | One medium |
| Payroll (CRSA) | Nov '15 | Full | None |
| Risk Management Benchmarking | Dec '15 | N/A | N/A |
| Council Tax | Dec '15 | Substantial | None |
| Data Protection | Dec '15 | Full | None |
| Debtors | Dec '15 | Substantial | Two medium One merits attention |
| Benefits | Jan '16 | Full | None |

High Priority Recommendations

2.3 A Final Audit Report is issued when agreed by management; this includes an agreement to implement recommendations that have been made. It is SIAS's responsibility to bring to the attention of Members the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.

Proposed Audit Plan Amendments

2.4 Since September 2015 Audit Committee, the following deletions from, and additions to the 2015/16 Audit Plan have been agreed with Officers of the Council. These are detailed below for Audit Committee approval:

Deleted Audits (days returned to contingency):

- Procurement of Locata system for Housing (10 days)
In practice the Council acquired additional modules to an existing system through a joint process with four other Councils (led by Epping Council). Management have no concerns over this process and therefore no audit is required.
- Land Drainage Contract (10 days)
Procurement is not sufficiently advanced for assurance provision in 2015/16. To be considered for inclusion in the 2016/17 Audit Plan.

New Audits (days allocated from contingency):

- Housing Allocations (10 days)
Review of applications to join the Housing Register and subsequent placement with social landlords via the Choice Based Lettings system.
- BACS (4 days)
Review installation of new Paygate BACS software and revised in-house procedures.
- Cash Handling in Environmental Health (3 days)
Review controls over income collected by Environmental Health Officers

Changes to existing audits (days allocated from contingency):

- Procurement and Contract Management (3 days)
Additional time to support delivery of extensive scope agreed with management.

Performance Management

- 2.5 Annual performance indicators and associated targets were approved by the SIAS Board in 2011 and are reviewed annually by the Board.

2.6 As at 1 January 2016 actual performance for East Herts against the targets that can be monitored in year was as shown in the table below.

| Performance Indicator | Annual Target | Profiled Target to 1 January 2016 | Actual to 1 January 2016 |
|--|----------------------|--|-------------------------------------|
| 1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency) | 95% | 75% | 73% |
| 2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects | 95% | 65% (20 of 31 projects to draft) | 61% (19 of 31 projects to draft) |
| 3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level | 100% | 100% | 100% |
| 4. Number of High Priority Audit Recommendations agreed | 95% | 95% | None yet made in 2015/16 |

2.7 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2015/16 Head of Assurance's Annual Report:

- **5. External Auditor's Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March

meeting then the plan should be prepared for the first meeting of the civic year.

- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 1 JANUARY 2016

2015/16 SIAS Audit Plan

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|--------------------|------|---|----|-----------------|-----------------------|-------------------------|--|
| | | H | M | MA | | | | |
| Key Financial Systems | | | | | | | | |
| Asset Management (CRSA Year 2) / Strategy | | | | | 13.5 | Yes | 3 | In fieldwork |
| Benefits | Full | 0 | 0 | 0 | 15 | Yes | 15 | Final report issued |
| Council Tax | Substantial | 0 | 0 | 0 | 12 | Yes | 12 | Final report issued |
| Creditors | Substantial | 0 | 1 | 0 | 12 | Yes | 12 | Final report issued |
| Debtors | Substantial | 0 | 2 | 1 | 12 | Yes | 12 | Final report issued |
| Main Accounting (CRSA Year 2) | Full | 0 | 0 | 0 | 8 | Yes | 8 | Final report issued |
| NDR | | | | | 12 | Yes | 11.5 | Draft report issued |
| Payroll (CRSA Year 2) | Full | | | | 8 | Yes | 8 | Final report issued |
| Payroll Certificate | N/A | - | - | - | 1 | Yes | 1 | Complete |
| Treasury (CRSA Year 1) | | | | | 8 | Yes | 7.5 | Draft report issued |
| Operational Audits | | | | | | | | |
| FM Compliance Plan | | | | | 15 | Yes | 1 | In planning – due to start February 2016 |
| Homelessness | Full | 0 | 0 | 0 | 15 | Yes | 15 | Final report issued |
| Policy Review | Moderate | 0 | 3 | 1 | 15 | Yes | 15 | Final report issued |
| Insurance | Substantial | 0 | 2 | 0 | 12 | Yes | 12 | Final report issued |
| Members Allowances & Expenses | Full | 0 | 0 | 0 | 10 | Yes | 10 | Final report issued |
| Public Health Burials | Full | 0 | 0 | 0 | 10 | Yes | 10 | Final report issued |

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 1 JANUARY 2016

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|--------------------|------|---|----|-----------------|-----------------------|-------------------------|---|
| | | H | M | MA | | | | |
| Section 106 Agreements | | | | | 15 | Yes | 2 | Terms of reference issued – due to start January 2016 |
| Street Markets | | | | | 15 | Yes | 3 | In planning |
| Development Management | | | | | 15 | Yes | 13 | In fieldwork |
| Operational Risk Management | Substantial | 0 | 1 | 1 | 12 | Yes | 12 | Final report issued |
| Data Protection | Substantial | 0 | 0 | 0 | 12 | Yes | 12 | Final report issued |
| Repair and Renew Flood Grant | N/A | - | - | - | 1.5 | Yes | 1.5 | Complete |
| Housing Allocations | | | | | 10 | Yes | 1 | Terms of reference issued – due to start January 2016 |
| Cash Handling (Environmental Health) | | | | | 3 | Yes | 0 | Due to start March 2016 |
| BACS | | | | | 4 | Yes | 0 | Due to start January 2016 |
| Procurement | | | | | | | | |
| Procurement and Contract Management | | | | | 28 | Yes | 26 | Draft report issued |
| Veolia Waste Contract | | | | | 15 | Yes | 10 | In fieldwork |
| Follow Up of Leisure Services Contractor Compliance | | | | | 6 | No | 0 | Due to start January 2016 |
| Land Drainage Contract | | | | | 0 | N/A | 0 | Audit cancelled |

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 1 JANUARY 2016

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| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|--|--------------------|------|---|----|-----------------|-----------------------|-------------------------|--|
| | | H | M | MA | | | | |
| Procurement of Locata system (Housing) | | | | | 0 | N/A | 0 | Audit cancelled |
| IT Audits | | | | | | | | |
| Software Licensing | | | | | 8 | Yes | 1 | In planning – due to start March 2016 |
| IT Helpdesk | | | | | 8 | Yes | 4 | Terms of reference issued – due to start February 2016 |
| Shared Learning | | | | | | | | |
| Shared Learning Newsletters and Summary Themed Reports | | | | | 2 | No | 1.5 | On-going |
| Audit Committee Workshop | | | | | 1 | No | 0 | Planned for Q4 |
| Joint Review – Risk Management Benchmarking Workshop | N/A | - | - | - | 2 | Yes | 2 | Complete |
| Strategic Support | | | | | | | | |
| 2016/17 Audit Planning | | | | | 10 | N/A | 7 | In progress |
| Audit Committee | | | | | 15 | N/A | 11 | On-going |
| Client Meetings | | | | | 10 | N/A | 7.5 | On-going |
| Liaison with External Audit | | | | | 1 | N/A | 1 | Complete |
| Head of Internal Audit Opinion | | | | | 5 | N/A | 5 | Complete |

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 1 JANUARY 2016

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|--|--------------------|------|---|----|-----------------|-----------------------|-------------------------|----------------|
| | | H | M | MA | | | | |
| 2014/15 | | | | | | | | |
| Plan Monitoring | | | | | 10 | N/A | 7.5 | On-going |
| SIAS Development | | | | | 5 | N/A | 5 | Complete |
| Contingency | | | | | | | | |
| Unused Contingency | | | | | 0 | N/A | 0 | N/A |
| Follow Ups | | | | | | | | |
| Follow up of high priority recommendations | | | | | 5 | N/A | 4 | On-going |
| 2014/15 Projects requiring completion | | | | | | | | |
| Various | | | | | 3 | Yes | 3 | Complete |
| | | | | | | | | |
| EHC TOTAL | | | | | 400 | | 293 | |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|----|--|--|--|------------------------------------|----------------------|--|---------------------------------------|
| 1. | Business Continuity (IA Report 7/6/11) | It is recommended that the Business Continuity Plan is reviewed annually. It is further recommended that the Business Continuity Plan is communicated to staff and made available on the intranet. | The current East Herts Council Business Continuity Plan was sufficient, but it did not take into account C3W. Recognising this, we have engaged Zurich Ins Co. to conduct a scoping workshop 14 th July. Zurich has already reviewed the Council's | Director of Neighbourhood Services | Sep 2011 | <p><u>Jun 15</u> Critical service questionnaires returned and plan updated. Test will take place shortly to identify strengths and weaknesses of plan.</p> <p><u>Sep 15</u> Business Continuity Plan review / preparation for test taking place 30 September 2015.</p> <p><u>Dec 15</u> No progress. Graduate trainee allocated to project in attempt to</p> | Not implemented – continue to monitor |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No. | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|-----|--|--|--|------------------------------------|----------------------|---|---|
| | | | strategic risks. This work is being finalised before being put to CMT. | | | complete by 31 st March 2016. | |
| 2. | Business Continuity (IA Report 7/6/11) | It is recommended that the Business Continuity Corporate Group (BCG) meet on a regular basis until the Business Continuity Plan is approved, and thereafter on a six monthly basis to review the plan. | The outcome from the Zurich workshop will trigger this group. | Director of Neighbourhood Services | Sep 2011 | <p><u>Jun 15</u> See note at recommendation 1.</p> <p><u>Sep 15</u> See note at recommendation 1. Business Continuity Group meets quarterly.</p> <p><u>Dec 15</u> See note at recommendation 1. Business Continuity Group meets</p> | Partially implemented – continue to monitor |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|----|---|---|---|------------------------------------|----------------------|--|---|
| | | | | | | quarterly. | |
| 3. | Business Continuity Planning (01/10/13) | <p>All departmental business continuity plans and resource recovery questionnaires should be reviewed to ensure they are complete, contain a sufficient level of detail, and have been reviewed and approved by appropriate members of staff.</p> <p>In addition to this, a periodic rolling programme of disaster recovery</p> | <p>Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time.</p> <p>Information captured by services in their Business Recovery</p> | Director of Neighbourhood Services | 30 June 2014 | <p><u>Jun15</u> See note at recommendation 1.</p> <p><u>Sep 15</u> Critical service questionnaires returned and plan updated.</p> <p><u>Dec 15</u> See note at recommendation 1.</p> | Partially implemented – continue to monitor |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No. | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|-----|------------------------------|--|---|---------------------|----------------------|---------------------|-----------------------|
| | | testing (at minimum requiring some downtime and recovery of IT services) should be performed and then reviewed to make relevant updates to the BCPs. | Plans will be reviewed in line with the new ICT solution referred to in Recommendation 2. A provisional schedule for testing recovery plans will be established and reviewed annually. Testing will take place in line with the established schedule. | | | | |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|----|---|--|---|------------------------------------|----------------------|--|---|
| 4. | Business Continuity Planning (01/10/13) | <p>Once the actions related to findings 1 and 2 have been completed, the Council needs to get the Business Continuity Plan formally approved and signed off, so that it can be distributed to the relevant members of staff.</p> <p>In addition to this, key stakeholders need to meet and agree on comprehensive roles and responsibilities with regard to business</p> | Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time. | Director of Neighbourhood Services | 31 March 2014 | <p><u>Jun15</u> Statement of intent from Directors included in Plan. Contact list / information cascade close to completion.</p> <p><u>Sep 15</u> As per June 2015 comment.</p> <p><u>Dec 15</u> See note at recommendation 1.</p> | Partially implemented – continue to monitor |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No. | Report Title / Date of Issue | Recommendation | Management Response | Responsible Officer | Original Target Date | Management Comments | SIAS Comment (Jan 16) |
|------------|-------------------------------------|---|----------------------------|----------------------------|-----------------------------|----------------------------|------------------------------|
| | | continuity planning, and these responsibilities should be documented within the plan. | | | | | |

APPENDIX C AUDIT PLAN ITEMS (APRIL 2015 TO MARCH 2016) – START DATES AGREED WITH MANAGEMENT

| Apr | May | Jun | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar |
|--|---|--|--|--|--|--|---|---|---|--|---|
| <p>Payroll Certificate</p> <p>Complete</p> | <p>Homelessness</p> <p>Final report issued</p> | <p>Operational Risk Management</p> <p>Final report issued</p> | <p>Members Allowances & Expenses</p> <p>Final report issued</p> | <p>Procurement & Contract Management</p> <p>Draft report issued</p> | <p>Benefits</p> <p>Final report issued</p> | <p>FM Planned Maintenance Programme</p> <p>In planning - start date moved to Feb 16 at client's request</p> | <p>Street Markets</p> <p>In planning – audit to start Jan 16</p> | <p>Veolia Waste Contract</p> <p>In fieldwork</p> | <p>Follow Up Leisure Services Contractor Compliance</p> <p>Audit to start Jan 16</p> | <p>IT Helpdesk</p> <p>ToR issued – start date moved to Feb 16 at client's request</p> | <p>Software Licensing</p> <p>In planning – audit to start Mar 16</p> |
| <p>Policy Review</p> <p>Final report issued</p> | | <p>Insurance</p> <p>Final report issued</p> | | <p>Repair and Renew Grant</p> <p>Complete</p> | <p>Public Health Burials</p> <p>Final report issued</p> | <p>Development Management</p> <p>In fieldwork</p> | <p>Treasury Mgmt</p> <p>Draft report issued</p> | | <p>Asset Mgmt</p> <p>In fieldwork</p> | | <p>Cash Handling (Env Health)</p> <p>Audit to start Mar 16</p> |
| | | <p>Data Protection</p> <p>Final report issued</p> | | | | <p>Council Tax</p> <p>Final report issued</p> | <p>Risk Mgmt Joint Review</p> <p>Completed</p> | | <p>Section 106</p> <p>ToR issued – audit to start Jan 16</p> | | |

APPENDIX C AUDIT PLAN ITEMS (APRIL 2015 TO MARCH 2016) – START DATES AGREED WITH MANAGEMENT

| | | | | | | | | | | | |
|--|--|--|--|--|---|---|--|--|--|--|--|
| | | | | | Creditors Final report issued | NDR Draft report issued | | | Housing Allocations ToR issued – audit to start Jan 16 | | |
| | | | | | Debtors Final report issued | Main Accounting Final report issued | | | BACS Audit to start Jan 16 | | |
| | | | | | | Payroll Final report issued | | | | | |

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 20 JANUARY 2016

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

UPDATE ON IMPLEMENTATION OF 2015/2016 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The 2014/15 Annual Governance Statement includes three measures to enhance East Herts Council's internal control framework during 2015/16. The Audit Committee is requested to consider the content of **Essential Reference Paper 'B'** that provides details of proposed actions that need to take place prior to confirmation being given that adequate and effective controls are fully in place.

| | |
|---|--|
| <u>RECOMMENDATION FOR AUDIT COMMITTEE:</u> | |
| That: | |
| (A) | The progress made against implementing the action plan contained in the 2014/15 Annual Governance Statement be reviewed and Members' concerns be highlighted. |
| | |

1.0 Background

1.1 The Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to this Committee. Actions needed to address issues have been identified and are monitored on a R(ed), A(mber) and G(reen) basis.

2.0 Report

2.1 For the purposes of the Annual Governance Statement, internal control is being interpreted in its broadest sense covering both

financial and managerial controls that ensure that the implementation of East Herts Council's vision and priorities is being managed effectively.

- 2.2 Position statements are reflected in **Essential Reference Paper 'B'** following consultation with key responsible officers. The position statement contains a traffic light system whereby:
- "Green" indicates that the planned action has been achieved,
 - "Amber" indicates that satisfactory progress is being made towards achieving the planned action, and
 - "Red" is where a planned action has not been achieved or that progress is unsatisfactory.
- 2.3 The Annual Governance Statement Action Plan was approved by the Audit Committee on 23 September 2015.
- 2.4 The following updated positions are highlighted:
- An Asset Management IT system has recently been procured such that the RAG Status can now be shown as "Green".
 - A draft Asset Management Plan has been considered by CMT and by the Asset Management Working Group in December 2015.
 - In respect of Welfare reforms, the lowering of the Benefit CAP has recently been delayed until the autumn of 2016.
 - The District Plan Executive Panel has agreed a date in April 2016 to consider the District Plan pre-submission document for consultation in June/July 2016.
- 2.5 This report was also considered by Corporate Management Team on 5 January 2016.
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A'.

Background Papers

Update on Implementation of 2015/2016 Annual Governance Statement Action Plan - Audit Committee 25 November 2015.

Contact Member: Councillor Linda Haysey
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IMPLICATIONS/CONSULTATIONS

| | |
|---|--|
| <p>Contribution to the Council's Corporate Priorities/ Objectives</p> | <p><i>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</i></p> <p>This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.</p> <p><i>Place – Safe and Clean</i></p> <p>This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean.</p> <p><i>Prosperity – Improving the economic and social opportunities available to our communities</i></p> <p>This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.</p> |
| <p>Consultation:</p> | <p>No public or partner consultations were required during the preparation of this report.</p> |
| <p>Legal:</p> | <p>There are no additional legal implications to those already contained in this report.</p> |
| <p>Financial:</p> | <p>There are no additional financial implications to those already contained in this report.</p> |
| <p>Human Resource:</p> | <p>There are no additional human resource implications to those already contained in this report.</p> |
| <p>Risk Management:</p> | <p>There are no additional risk management implications to those already contained in this report.</p> |
| <p>Health and wellbeing – issues and impacts:</p> | <p>There are no additional health and wellbeing issues and impacts to those already contained in this report.</p> |

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Required enhancements to internal control arrangements:

| Issue | Resp. Off. | Initial Target Dates | Actions needed to achieve milestone | Current position | RAG Status |
|-----------------------|-------------------|--|--|---|-------------------|
| Asset Management Plan | CMT | December 2015 for draft plan to CMT, with submission to Executive by March 2016. | <ul style="list-style-type: none"> Review strategy for each asset held by the Council to provide an outcome for each one. | <ul style="list-style-type: none"> Draft Asset Management Plan considered by CMT on 15 December 2015 and Asset Management Working Group on 18 December 2015. | AMBER |
| | | | <ul style="list-style-type: none"> Review Asset Management Plan in line with RICS guidance. | <ul style="list-style-type: none"> Draft Asset Management Plan considered by CMT on 15 December 2015 and Asset Management Working Group on 18 December 2015. | AMBER |
| | | | <ul style="list-style-type: none"> Assess the requirements of an Asset Management IT system and begin procurement. | <ul style="list-style-type: none"> IT system identified and procured in October 2015. Initial implementation meeting | GREEN |

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|---|-----|---|---|---|-------|
| | | | | held on 16 December 2015. A Project Plan is currently being drawn up. | |
| Impact of Welfare Reform changes | CMT | April 2016 is the likely start date for legislation to take effect. | <ul style="list-style-type: none"> • Impending Legislation will have an adverse financial impact on a significant number of residents. • Provide residents more support for services across the Council to staffing levels, manage the budget and the public expectations. • Implement Council policies effectively. | <ul style="list-style-type: none"> • Unable to put SMART targets in place until it is clear when and how this is going to impact. The Impact of Welfare Reform changes is recognised as a specific Strategic Risk. Revenues & Benefits have this area under constant review. • The lowering of the Benefit CAP will not now be introduced until the Autumn of 2016. | AMBER |
| Development of a District Plan that is approved by the planning | CMT | March 2016 | <ul style="list-style-type: none"> • Pre-submission document agreed for consultation. | <ul style="list-style-type: none"> • The District Plan Executive Panel has agreed a date in April 2016 to consider the pre-submission document for | AMBER |

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|----------------------|--|----------------------|---|--|--------------|
| <p>inspectorate.</p> | | <p>October 2016</p> | <ul style="list-style-type: none"> • Submission document agreed and submitted to PINS. | <p>consultation June/July 2016.</p> <ul style="list-style-type: none"> • The ability to advance this action is dependent on a number of factors including: the level of response to consultation and the issues raised; the resolution of outstanding infrastructure concerns; and ongoing discussions under the Duty-to-Cooperate. Risks to the timeline will be minimised through ongoing work with stakeholders and DCLG/PINS. | <p>AMBER</p> |
| | | <p>February 2017</p> | <ul style="list-style-type: none"> • Examination of Plan. | <ul style="list-style-type: none"> • Examination of the Plan will commence in accordance with a timeline issued by PINS. More detailed assessment of the risks at | <p>AMBER</p> |

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|--|--|-----------------|---|--|--------------|
| | | <p>May 2017</p> | <ul style="list-style-type: none"> • Adoption of District Plan | <p>this stage will be possible following the release of the submission version of the Plan. Action would be taken, as appropriate, to reduce any identified risks.</p> <ul style="list-style-type: none"> • Adoption of the District Plan will be dependent on the outcome of the Examination. More detailed assessment of the risks at this stage will be possible following the release of the submission version of the Plan. Action would be taken, as appropriate, to reduce any identified risks. | <p>AMBER</p> |
|--|--|-----------------|---|--|--------------|

EAST HERTS COUNCIL

AUDIT COMMITTEE – 20 JANUARY 2016

REPORT BY DIRECTOR OF FINANCE & SUPPORT SERVICES

AUDIT COMMITTEE WORK PROGRAMME 2015/16

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides the Audit Committee work programme for the 2015/16 civic year for consideration and approval.

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| <u>RECOMMENDATION FOR AUDIT COMMITTEE:</u> | |
| That: | |
| (A) | The work programme for the Audit Committee be approved. |
| | |

1.0 Background

1.1 The Audit Committee's work programme was approved by the Audit Committee on 18 March 2015.

2.0 Report

2.1 The Audit Committee work programme for the 2015/2016 civic year is given at **Essential Reference Paper 'B'**.

2.2 There have been no amendments made to the work programme since the previous Audit Committee.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Audit Committee Work Programme 2014/15 - Audit Committee

18 March 2015.

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Report Author: Chris Gibson
Head of Governance and Risk Management
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chris.gibson@eastherts.gov.uk

ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

| | |
|---|---|
| Contribution to the Council's Corporate Priorities/ Objectives: | <p><i>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</i></p> <p>This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.</p> |
| Consultation: | External Audit and the Shared Internal Audit Service have been fully consulted in the preparation of this work programme. |
| Legal: | There are no additional legal implications to those already contained in this report. |
| Financial: | There are no additional financial implications to those already contained in this report. |
| Human Resource: | There are no additional human resources implications to those already contained in this report. |
| Risk Management: | There are no additional risk management implications to those already contained in this report. |
| Health and wellbeing – issues and impacts: | There are no additional health and wellbeing implications to those already contained in this report. |

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ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2015/16 Civic Year

| Committee Date | Agenda Items |
|-------------------|--|
| 15 July 2015 | <ul style="list-style-type: none"> • Training item • External Audit- Audit Plan • Draft Statement of Accounts 2014-2015. • Shared Internal Audit Service Annual Assurance Statement and Annual Report 2014/15. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2014/15 Annual Governance Statement. • Risk Management monitoring report 1 January 2015 to 31 March 2015. • Audit Committee Work Programme. |
| 23 September 2015 | <ul style="list-style-type: none"> • Training item • External Audit report- Audit Findings Report. • Statement of Accounts 2014/15. • 2014/15 Annual Governance Statement. • Treasury Management Strategy – 2014/15 Outturn • Annual Shared Internal Audit Service Board Report 2014/15. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) Position Statement. • Risk Management monitoring report 1 April 2015 to 30 June 2015. • Audit Committee Work Programme. |
| 25 November 2015 | <ul style="list-style-type: none"> • Training item • External Audit report- 2014/15 Annual Audit Letter. • Council response to 2014/15 Annual Audit Letter. • External Audit report- Planned Audit Fees for 2015/16. • Treasury Management Strategy- 2015/16 Mid-year Review. • Update on Implementation of Annual Governance |

ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2015/16 Civic Year

| | |
|------------------------|---|
| | <p>Statement Action Plan.</p> <ul style="list-style-type: none"> • Risk Management monitoring report 1 July 2015 to 30 September 2015. • Audit Committee Work Programme. |
| <p>20 January 2016</p> | <ul style="list-style-type: none"> • Training item • External Audit- Grants Claim Certification Work 2014/15. • Treasury Management Strategy Statement 2016/17. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Audit Committee Work Programme. |
| <p>16 March 2016</p> | <ul style="list-style-type: none"> • Training item • External Audit Update report. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) Position Statement. • Internal Audit Plan 2016/17. • Update on Implementation of Annual Governance Statement Action Plan. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 October 2015 to 31 December 2015. • Risk Management Strategy. • Audit Committee Work Programme 2016/17 Civic Year. |