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Head of Legal and Democratic Services

MEETING	:	AUDIT AND GOVERNANCE COMMITTEE
VENUE	:	COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE	:	WEDNESDAY 25 JANUARY 2017
TIME	:	7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor M Pope (Chairman)
Councillors D Abbott, A Alder, P Boylan, B Deering (Vice-Chairman), I Devonshire, P Kenealy, W Mortimer, S Stainsby and C Woodward

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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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If you think a meeting you plan to attend could be very busy, you can check if the extra space will be available by emailing committee.services@eastherts.gov.uk or calling the Council on 01279 655261 and asking to speak to Democratic Services.

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AGENDA

1. Training Item - Fraud

   Presentation to Members.

2. Apologies

   To receive apologies for absence.

3. Minutes (Pages 7 - 16)

   To confirm the Minutes of the meeting held on 23 November 2016.

4. Declarations of Interest

   To receive any Members' Declarations of Interest

5. External Audit - Grants Certification Report 2015/16

   " To Follow"

6. Treasury Management Strategy Statement 2017/18 (Pages 17 - 56)

7. Audit and Governance Committee - Work Programme 2016/17 (Pages 57 - 62)

8. Shared Internal Audit Service - Audit Plan Update (Pages 63 - 82)

9. Update on Implementation of Annual Governance Statement Action Plan (Pages 83 - 90)

10. Constitution Working Group Review - Interim Report (Pages 91 - 98)

11. Complaints submitted to the Monitoring Officer - Update

    Verbal Update to be presented to Members

12. Minutes of the Standards Sub Committee - 13 December 2016 (Pages 99 - 102)

    To note the Minutes of the Standards Sub-Committee held on 13 December 2016

13. 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

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MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD IN THE COUNCIL CHAMBER, WALLFIELDS, HERTFORD ON WEDNESDAY 23 NOVEMBER 2016, AT 7.00 PM

PRESENT: Councillor M Pope (Chairman)
Councillors D Abbott, P Boylan, B Deering, I Devonshire, S Stainsby and C Woodward

ALSO PRESENT:

Councillors M Allen, P Moore and P Ruffles

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	-	Democratic Services Officer
Philip Gregory	-	Head of Strategic Finance and Property
Helen Standen	-	Director
Kevin Williams		Acting Head of Legal and Democratic Services

ALSO IN ATTENDANCE:

Debbie Hanson	-	Ernst Young LLP

442 COMPLAINTS LODGED WITH THE MONITORING OFFICER

The Monitoring Officer stated that he had received a report from an independent investigator which would be referred to a Sub Committee. He stated that the report referred to former Councillor Cartwright and that this would be considered by the Sub Committee on 13 December 2016 and that the Sub Committee would take a decision on whether the report should be considered on the open agenda and therefore become a public document.

The Committee noted the update.

RESOLVED – that the update be noted.

443 TRAINING ITEM - BUSINESS CONTINUITY UPDATE

Members were given a presentation on an update in relation to Business Continuity Planning. The Director explained that the Business Continuity Plan provided the Council with the ability to maintain its services and be responsible to members of the public during any disaster which might befall the Council. She explained that the Council had been practising and testing for specific disasters in order to identify any weaknesses and to make the necessary adaptations to processes. The Director explained the role of key officers in responding to a disaster; when and how information was cascaded to senior management.

In response to a query from Councillor D Abbott regarding risk assessment information, the Director explained that the information was available on the intranet and that there were plans to make staff more aware of this and of their responsibilities via staff briefings and the weekly staff bulletin. Councillor C Woodward explained that this could be made mandatory in terms of questions asked by new staff during the induction process.

The Director explained what weaknesses had been identified and that the Business Continuity Plan would be added to the Emergency Plan and that staff would be involved in a test session with no prior warning.

In response to a query from Councillor P Boylan, the Director explained that plans were in place to address mass sickness, even death and explained the built in resilience to potential IT failures. She explained how data was backed up regularly in Stevenage and that staff could log on from anywhere. The Director assured Members that mechanisms were in place to ensure that Members were kept fully informed and that Officers had information on which Members were media trained to speak to the press.

Councillor M Allen referred to disasters and questioned how quickly the Council could be up and running following such an event. The Director explained that it depended on the severity of the disaster but the aim was within 24 hours.

The Chairman queried whether Business Continuity Planning procedures were shared between Councils. The Director explained that as far as she was aware, East Herts had never been asked to share their procedures.

The Chairman, on behalf of Members, thanked the Director for the presentation.

The Committee received the presentation.

RESOLVED – that the presentation be received.

444 APOLOGIES

Apologies for absence were submitted on behalf of Councillors A Alder and P Kenealy.

445 MINUTES

The External Auditor drew Members' attention to a minor change in relation to Minute 317 (External Audit – Audit Results report) and asked that in the first paragraph (fourth line) that the word "control" be changed to "conclusion". This was supported

RESOLVED – that the Minutes of the meeting held on 21 September 2016, as amended, be confirmed as a correct record and signed by the Chairman.

446 CHAIRMAN'S ANNOUNCEMENTS

The Chairman stated that, with Members consent, the order of the agenda be changed so that agenda item 13 (Complaints lodged with the Monitoring Officer) was considered first. This was supported.

447 EXTERNAL AUDITOR APPOINTMENT

The Executive Member for Finance and Support Services submitted a report which set out the options available to the Council in appointing external auditors from 2018/19 and the process for achieving the successful procurement of external audit services. The Head of Strategic Finance and Property provided a summary of the report.

In response to a query from the Chairman regarding setting the audit fee, the Head of Strategic Finance and Property explained the process.

The Committee recommend to Council via the Executive, that the Council "opts in" to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors.

> RESOLVED – that Council via the Executive be advised that Audit and Governance support "opting in" to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors from 2018/19.

448 TREASURY MANAGEMENT STRATEGY 2016/17 - MID YEAR REVIEW

The Executive Member for Finance and Support Services submitted a report which reviewed the Council's Treasury Management activities for the first six months of 2016/17 financial year, including the prudential indicators. The Head of Strategic Finance and Property provided a summary of the report.

The Chairman sought and was given clarification on a number of issues including information regarding borrowing, the impact on interest rates following Brexit, the Council's choice of banking institutions used and investment diversification.

The Committee approved the Treasury Management activity and prudential indicators for the first six months of 2016/17 financial year.

RESOLVED – that the Treasury Management activity and prudential indicators for the first 6 months of 2016/17 financial year be approved.

449 EXTERNAL AUDIT - 2015/16 ANNUAL AUDIT LETTER

The External Auditor submitted a report setting out its results and conclusions following completion of audit procedures for the year ended 31 March 2016. The Annual Audit Letter set out any key issues which had arisen from the External Auditor's work. She explained that the audit fee had been varied in the sum of £771 in order to address some additional work in reaching their Value for Money conclusion.

The External Auditor provided an overview of the report stating that there were no significant risks identified in relation to the Financial Statement Audit. Three key issues had been identified in relation to management override of controls, revenue and expenditure recognition and the purchase of Old River Lane, but that having performed procedures outlined in the External Audit Plan, the External Auditors had concluded that the Council had adequate arrangements in place and had issued an unqualified opinion.

The External Auditor explained that in considering their Value for Money conclusion three significant issues had been identified and considered; achievement of savings over the medium term, arrangements for procuring supplies and services and the governance arrangements for the purchase of Old River Lane. Having performed procedures outlined in the External Audit Plan, the External Auditors concluded that the Council had adequate arrangements in place and issued an unqualified opinion.

The Annual Audit Letter reviewed the impact of the EU Referendum on financial markets in terms of heightened levels of volatility. The External Auditor also referred to the final Audit Fees incurred for 2015/16.

It was noted that the Annual Audit Letter confirmed that the

Council had received an unqualified opinion on both its financial statements for the year ended 2015/16 and for the value for money conclusion on 30 September 2016.

The Head of Strategic Finance and Property assured Members that new software would be in place by September 2017 in relation to procurement so that information would be held in one place. The Chairman sought and was provided with advice on the impact of Brexit on the Council's revenue streams. The External Auditor explained that those who were at risk were companies who received a lot of EU funding but that the Council needed to keep up to date with the challenges as they emerged.

In response to a query from the Chairman, the Head of Strategic Finance and Property confirmed that Rural Development Funding had been guaranteed by the Government.

The Committee received the Annual Audit Letter for the year ended 31 March 2016.

> RESOLVED – that the Annual Audit Letter for the year ended 31 March 2016 be received.

450 COUNCIL'S RESPONSE TO 2015/16 ANNUAL AUDIT LETTER

The Executive Member for Finance and Support Services submitted a report setting out the Council's proposed response to the issues and recommendations raised in the Annual Audit letter for 2015/16. It was noted that the Annual Audit Letter summarised the key issues and recommendations arising from the work undertaken by Ernst and Young LLP (EY) and confirmed that the Council had received an unqualified opinion on both its financial statements for the year ending 2015/16 and for the Value for Money conclusion on 30 September 2016.

The Head of Strategic Finance and Property thanked the External Auditors (EY) for their help in producing the accounts.

The Committee agreed the Council's response to the Annual Audit Letter.

RESOLVED – that the Council's response to the Annual Audit Letter be agreed.

451 EXTERNAL AUDIT - PLANNING AUDIT FEES FOR 2016/17

The External Auditor submitted a letter setting out its indicative audit and certification work fees for the 2016/17 financial year the detail of which was set out in the report submitted.

The Committee noted the indicative audit fees for 2016/17.

RESOLVED – that the indicative audit fees for 2016/17 be noted.

452 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Head of Strategic Finance and Property submitted a report detailing the progress made in implementing the action plan contained in the Annual Governance Statement 2015/16 and the measures to enhance East Herts Council's internal control framework during 2016/17. The Head of Strategic Finance and Property gave a summary of some of the key changes.

In response to a query regarding the District Plan it was noted that comments received following further consultation, would be determined by the Planning Inspectorate.

The Committee noted the progress made in implementing the action plan contained in the 2015/16 Annual Governance Statement.

RESOLVED – that the progress made in implementing the action plan contained in the 2015/16 Annual Governance Statement be noted.

453 RISK MANAGEMENT STRATEGY – UPDATE

The Executive Member for Finance and Support Services submitted a report detailing proposed annual revisions to the Risk Management Strategy in order to reflect current best practice and more recently, in order to reflect the changes following the senior management restructure. The Head of Strategic Finance and Property provided Members with a summary of the main amendments and referred Members to the Essential Reference Papers detailing the tracked changes within the strategy and the updated version.

Councillor C Woodward stated that two officers with extensive experience of Covalent would be shortly leaving the Council. The Head of Strategic Finance and Property provided a summary of what information was monitored by the Officers and provided assurance that Members would still have the ability to interrogate Covalent or any alternative that would be implemented in the future. Councillor Woodward asked whether additional training on Covalent could be arranged, for all and particularly new Members. This was supported.

The Committee supported the recommendation as now detailed.

RESOLVED – that (A) the Risk Management Strategy be approved; and

(B) the Scrutiny Officer be asked to arrange Member Training on Covalent.

454 RISK MANAGEMENT MONITORING REPORT 1 JULY 2016 TO 30 SEPTEMBER 2016

The Executive Member for Finance and Support Services submitted a report on the action taken to mitigate and control risks during July to September 2016. The Head of Strategic Finance and Property provided a summary of the report and the monitoring arrangements. Members debated at length the risk matrix in relation to Strategic Risks shown as “red”.

In response to a query from Councillor M Allen regarding SR 1b (Business Income significantly reduced from planning anticipated level and current levels), the Head of Strategic Finance and Property explained that the Council had set aside between £3 - 4M in the event of successful appeals and that any increase of 1% would be met from the Collection Fund reserve to mitigate the risk.

Councillor C Woodward raised the issue of SR 12 (Encouragement of economic vitality across the District) and the Hertford Urban Design Study. The Head of Strategic Finance and Property assured the Member that there were plans to incorporate projects in Bishop’s Stortford once agreed following publication of the planning framework currently under consultation.

The Committee approved the report, as now detailed.

> RESOLVED – that the action taken to mitigate and control strategic risks for the period July to September 2016, be approved.

455 AUDIT AND GOVERNANCE WORK PROGRAMME

The Head of Strategic Finance and Property submitted a report detailing the proposed work programme for Audit and Governance Committee.

Members approved the work programme, as now detailed.

> RESOLVED – that the work programme, be approved.

The meeting closed at 8.12 pm

Chairman	....
Date	....

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2017

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

TREASURY MANAGEMENT STRATEGY 2017-18

WARDS AFFECTED: NON SPECIFIC

Purpose/Summary of Report

- The report sets out the proposed Treasury Management Strategy and Annual Investment Strategy for 2017-18.

- Where changes have been made to the revised Treasury Management Strategy and Annual Investment Strategy for 2016-17 or to the credit criteria for selection of investment counterparties approved for 2016-17, these have been referred to and discussed below.
- This report also presents the 2017-18 Prudential Indicators for approval.

RECOMMENDATIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE:	
(A)	**The Treasury Management Strategy and Annual Investment Strategy discussed in paragraphs 2.1 – 2.2 be received and recommended for approval by Council via the Executive;**
(B)	**The Prudential Indicators discussed in paragraph 2.3 be recommended for approval by Council via the Executive,**
(C)	**The counterparty listing discussed in paragraph 2.4 be recommended for approval by Council via the Executive.**

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 2017-18**.

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 20 January 2016. No additional changes to the 2017-18 Strategy have been proposed.

2.3 Prudential Indicators are included in **Essential Reference Paper**

'B': Treasury Management Strategy and Annual Investment Strategy 2017-18 paragraphs 2.1, 2.2, 2.3, 3.1, 3.2, 4.4, 5.1.2 and 5.1.4.

2.4 Please refer to the recommended counterparty listing in **Essential Reference Paper 'B': Appendix 5.4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Credit Rating Tables 2017-18**.

2.5 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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IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	Not Applicable
Legal:	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. The report fulfils the following legislative requirements: • 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.
Financial:	Within the body of the report.
Human Resource:	Not Applicable.
Risk Management:	Within the body of the report.
Health and wellbeing – issues and impacts:	Not Applicable.

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Essential Reference Paper B

East Herts District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2017/18

INDEX

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 occasions, 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 Joint Meeting of Scrutiny and Audit and Governance Committee.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 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 responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The following 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. Officers also attend regular workshops and seminars held by CIPFA and Capita Asset Services.

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 2017/18 – 2019/20

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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	**22.4**	**5.1**	**3.4**	**2.7**	**1.9**

Other long-term liabilities. The above financing need excludes other long-term liabilities, such as PFI and 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.

Financing of capital expenditure	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital receipts	2.1	2.9	0.8	0.5	0.5
Capital grants	0.5	1.2	0.4	0.7	0.3
Capital reserves	0.0	0.0	0.0	0.0	0.0
Revenue	1.0	0.3	0.1	0.1	0.1
Net financing need for the year	**18.8**	**0.7**	**2.1**	**1.4**	**1.0**

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 £296k of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement					
Total CFR	**(23.7)**	**(23.3)**	**(21.2)**	**(19.8)**	**(18.8)**
Movement in CFR	**18.2**	**0.4**	**2.1**	**1.4**	**1.0**

Movement in CFR represented by					
Net financing need for the year (above)	18.8	0.7	2.1	1.4	1.0
Less MRP/VRP and other financing movements	(0.6)	(0.3)	(0.0)	(0.0)	(0.0)
Movement in CFR	**18.2**	**0.4**	**2.1**	**1.4**	**1.0**

2.3 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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Fund balances / reserves	16.6	16.1	15.6	16.2	17.0
Capital receipts	0.0	0.0	0.0	0.0	0.0
Provisions	2.7	0.0	0.0	0.0	0.0
Other	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
Total core funds	**16.6**	**13.4**	**12.9**	**13.5**	**14.3**
Working capital*	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Under/over borrowing**	32.4	32.0	29.9	28.5	27.5
Expected investments	**48.3**	**44.7**	**42.1**	**41.3**	**41.1**

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

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 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 2016, 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.

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
External Debt					
Debt at 1 April	7.5	7.5	7.5	7.5	7.5
Expected change in Debt	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities (OLTL)	0.6	0.3	0.0	0.0	0.0
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March	**8.1**	**7.8**	**7.5**	**7.5**	**7.5**
The Capital Financing Requirement	**(23.7)**	**(23.3)**	**(21.2)**	**(19.8)**	**(18.8)**
Under / (over) borrowing	**(8.1)**	**(7.8)**	**(7.5)**	**(7.5)**	**(7.5)**

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 2017/18 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 Head of Strategic Finance and Property 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	7.5	7.5	7.5	7.5
Other long term liabilities	0.3	0.0	0.0	0.0
Total	**8.8**	**7.5**	**7.5**	**7.5**

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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	11.5	11.5	11.5	11.5
Other long term liabilities	0.5	0.2	0.2	0.2
Total	**12.0**	**11.7**	**11.7**	**11.7**

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 our central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut

Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that, at some point, there would be a start to a switch back from bonds to equities after a historic long-term trend over about the last twenty-five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in other developed countries. However, the degree of that upward pressure is likely to be dampened by how strong or weak, the prospects for economic growth and rising inflation are in each country and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.
The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer-term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields, as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after

the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently in a negative CFR position. This means that the capital borrowing need (the Capital Financing Requirement), has not been reached due to the level of the Council's reserves.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Any decisions which will result in a significant change to the CFR and this Council's need to borrow, will be reported to full council at the next available opportunity.

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.

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

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 5.4 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

	Colour (and long term rating where applicable)	Money Limit at Time of Investment per Banking Group / Fund / Authority	Time Limit
Banks *	**yellow**	**£10m**	**5yrs**
Banks	**purple**	**£10m**	**2 yrs**
Banks	**orange**	**£10m**	**1 yr**
Banks – part nationalised	**blue**	**£20m**	**1 yr**
Banks	**red**	**£10m**	**6 mths**
Banks	**green**	**£10m**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (not meeting Banks 1)	**XXX**	**£20m**	**1 day**
Property Funds	**-**	**£20m**	**5yrs**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**£10m**	**5yrs**
	Fund rating	**Money Limit per Fund**	**Time Limit**
Money market funds	**AAA**	**£10m / %**	**liquid**
Enhanced money market funds with a credit score of 1.25	**Dark pink / AAA**	**£10m / %**	**liquid**
Enhanced money market funds with a credit score of 1.5	**Light pink / AAA**	**£10m / %**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see Appendix 5.4.*

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country limits

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 5.6. 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 stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 - 0.25%
- 2017/18 - 0.25%
- 2018/19 - 0.25%
- 2019/20 - 0.50%

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

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

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	**2017/18**	**2018/19**	**2019/20**
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

4.6 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

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management (option 1)
5. Treasury management practice 1 – credit and counterparty risk management (option 2)
6. Approved countries for investments
7. Treasury management scheme of delegation
8. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2017/18 – 2019/20 AND MRP STATEMENT

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.

5.1.1 Minimum revenue provision (MRP) policy statement

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the calculated MRP is now nil.

5.1.2 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:

a. 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.

%	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	4.70%	4.68%	4.42%	4.49%	4.35%

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

b. 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.

c. Incremental impact of capital investment decisions on the band D Council tax

£	2015/16 Actual*	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	£12.51	£12.36	£12.02	£11.67	£11.48

** Please note calculation based on estimated council tax base Oct/15.*

5.1.4 Treasury indicators for debt

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	2017/18	2018/19	2019/20
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 2017/18			
		Lower	**Upper**
Under 12 months		0%	0%
12 months to 2 years		0%	0%
2 years to 5 years		80%	80%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		20%	20%
40 years to 50 years		0%	0%
Maturity structure of variable interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	0%
12 months to 2 years		0%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	0%
40 years to 50 years		0%	0%

5.2 INTEREST RATE FORECASTS 2016 – 2020

This appendix is in a separate downloadable file.

PWLB forecasts are based on PWLB certainty rates.

5.3 ECONOMIC BACKGROUND

UK. **GDP growth rates** in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3rd November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018 as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year tarted with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12th August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October.The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting, it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour, on 31st October, before it would have become compulsory to call a third General Election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly

given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4th December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22nd October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

5.4 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**	**Max. maturity period**
DMADF – 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
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	40%	6 months
Money Market Funds	AAA	100%	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced Cash 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

	Minimum credit criteria / colour band	Max % of total investments	Max. maturity period
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	80%	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	100%	12 Months

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

	* Minimum 'High' Credit Criteria / colour band	Use
Debt Management Agency Deposit Facility	Green	In-house
Term deposits – local authorities	Green	In-house
Term deposits – banks and building societies **	Green	In-house
Term deposits – banks and building societies **	* Short-term __, Long-term	Fund Managers

Term deposits with nationalised banks and banks and building societies

	* Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
UK part nationalised banks	Blue	In-house	100%	12 months
UK part nationalised banks	UK sovereign rating	Fund Managers	80%	12 months
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating	In-house and Fund Managers	80%	12 months

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	In-house buy and hold and Fund Managers

Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house and Fund Managers
2. Money Market Funds	AAA	In-house and Fund Managers
3. Enhanced Cash Funds with a credit score of 1.25	AAA	In-house and Fund Managers
4. Enhanced Cash Funds with a credit score of 1.5	AAA	In-house and Fund Managers
5. Bond Funds	AAA	In-house and Fund Managers
6. Gilt Funds	AAA	In-house and Fund Managers

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	Use	** Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Blue Orange Red Green	In-house	80%	12 months 12 months 6 months 100 days
Certificates of deposit issued by banks and building societies	Blue Orange Red Green	In-house and Fund Managers	80%	12 months 12 months 6 months 100 days

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
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	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	In-house and Fund Managers	80%	12 months 12 months 6 months 100 days
Certificates of deposit issued by banks and building societies	Blue Orange Red Green	In-house and Fund Managers	80%	12 months 12 months 6 months 100 days
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

5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing – for Hong Kong, Norway and Luxembourg), 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
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland
- Hong Kong

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Executive / Full Council

- 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) Joint Scrutiny / Audit and Governance Committee

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

5.7 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.

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EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2017

REPORT BY HEAD OF STRATEGIC FINANCE AND PROPERTY

AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides the Audit and Governance Committee work programme for the 2016/17 civic year for consideration and approval.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:	
(A)	**The revised work programme for the Audit and Governance Committee be approved.**

1.0 Background

1.1 The revised work programme for the Audit and Governance Committee was approved by the Audit and Governance Committee on 15 June 2016.

2.0 Report

2.1 The revised Audit and Governance Committee work programme for the 2016/2017 civic year is given at **Essential Reference Paper ‘B’**.

2.2 No amendments have been made since the last meeting.

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 and Governance Committee Work Programme 2016/17 Audit and Governance Committee 23 November 2016.

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IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	Priority 2- Enhance the quality of people's lives.
Consultation:	External & Internal Audit have been consulted during the compilation of the Work Programme. No public consultations were required during the preparation of this report.
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.

Audit and Governance Committee Work Programme 2016/17 Civic Year

Committee Date	Agenda Items
15 June 2016	• Draft Statement of Accounts 2015-2016. • Shared Internal Audit Service Annual Assurance Statement and Annual Report 2015/16. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2015/16 Annual Governance Statement. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 January 2016 to 31 March 2016. • Committee Work Programme.
21 September 2016	• Training item- Statement of Accounts • External Audit - Audit Results Report. • Statement of Accounts 2015/16. • 2015/16 Annual Governance Statement. • Treasury Management Strategy – 2015/16 Outturn • Annual Shared Internal Audit Service Board Report 2015/16. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) – report on the Council’s anti-fraud arrangements and work undertaken by SAFS (2015/2016). • Risk Management monitoring report 1 April 2016 to 30 June 2016. • Report from Head of Legal & Democratic Services re Complaints lodged under the Members’ Code of Conduct. • Committee Work Programme.
23 November 2016	• Training item – Business Continuity Plan update • External Audit - 2015/16 Annual Audit Letter. • Council response to 2015/16 Annual Audit Letter. • External Audit - Planned Audit Fees for 2016/17. • Treasury Management Strategy- 2016/17 Mid-year Review. • Update on Implementation of Annual Governance

Audit and Governance Committee Work Programme 2016/17 Civic Year

	Statement Action Plan. • Risk Management monitoring report 1 July 2016 to 30 September 2016. • Report from Head of Legal & Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme.
25 January 2017	• Training item - Fraud • External Audit- Grants Certification Report 2015/16. • Treasury Management Strategy Statement 2017/18. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Report from Head of Legal & Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme.
22 March 2017	• Training item – Pension Fund • External Audit - Audit Plan. • Shared Internal Audit Service - Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) - report on the Council's anti-fraud arrangements and work undertaken by SAFS (2016/2017). • Internal Audit Plan 2017/18. • Update on Implementation of Annual Governance Statement Action Plan. • Risk Management Strategy. • Risk Management monitoring report 1 October 2016 to 31 December 2016. • Annual Performance Framework update (or June?) • Report from Head of Legal & Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme 2017/18 Civic Year.

East Herts Council
Audit and Governance Committee
SIAS Progress Report
25 January 2017

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report;
- Approve amendments to the Audit Plan as at 6 January 2017; and
- Note the status of high priority recommendations.

Contents

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 2016/17 as at 6 January 2017.
b) Proposed amendments to the approved 2016/17 Audit Plan.
c) Implementation status of previously agreed high priority audit recommendations.
d) An update on performance management information as at 6 January 2017.

Background

1.2 The 2016/17 Audit Plan was approved by the Audit Committee on 16 March 2016.

1.3 The Audit and Governance Committee receives periodic updates against the Annual Internal Audit Plan, the most recent of which was brought to the Committee on 21 September 2016.

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 6 January 2017, 64% of the 2016/17 Audit Plan days had been delivered (calculation excludes unused contingency). Appendix A provides a status update on each individual project within the audit plan.

2.2 Six projects from the 2016/17 Audit Plan have been finalised since the September 2016 meeting of the Audit and Governance Committee.

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
BACS	Sep ‘16	N/A	The objective of this review was to comment on Management’s view of the controls at each key stage of the planned installation of Paygate software for processing BACS payments. Although not a traditional assurance review, SIAS reported on further control enhancements that management may wish to incorporate in the revised process.
Cyber Risk	Nov ’16	Moderate	Three medium Two merits attention
Benefits	Dec ‘16	Full	None
Enviro Crime	Dec ‘16	Substantial	Four merits attention
Debtors CRSA	Jan ‘ 17	Full	None
Creditors CRSA	Jan ‘17	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.

2.4 The current position in respect of previously agreed outstanding high priority recommendations is shown at Appendix B.

Proposed Audit Plan Amendments

2.5 Since the September 2016 meeting of the Audit and Governance Committee, the following changes to the 2016/17 Audit Plan have been agreed with Officers of the Council. These are detailed below for Committee approval:

Deleted Audits (days returned to contingency):

- Development Management – pre applications (5 days)
  The revised process has not yet been introduced and is now expected to commence in April 2017. An audit of the revised process will be considered for inclusion in the 2017/18 Audit Plan as part of the planning process.

- New Payroll Contract – controls assurance (4 days)
  A consultant with extensive experience of payroll system implementations (including the new system procured) has been employed and with additional in-house support from payroll, finance and projects, internal audit input is not required at this stage.

- Land Drainage Contract (5 days)
  Procurement will not be sufficiently advanced for assurance provision in 2016/17.

- Joint Review - Community Infrastructure Levy (2 days)
  CIL has yet to be adopted and therefore no assurance provision is currently required. An audit in this area will be considered for inclusion in the 2017/18 Audit Plan.

- Follow up fraud related themes (5 days)
  No clear themes have emerged at this stage. This will be considered for inclusion in the 2017/18 Audit Plan.

Change to an Existing Audit (days returned to contingency):

- Internet and Email Usage
  A total of 8 days is deemed sufficient for this audit (4 days each for EHC and SBC as this is a shared IT audit) rather than the original budget of 16 days in total

(8 days for each council). This allows the return of 4 days to contingency for a new IT audit (see below).

New Audits (days allocated from contingency):

- Digital Information Management (4 days)
  New audit added within the shared IT service with SBC.

Performance Management

2.6 Annual performance indicators and associated targets were approved by the SIAS Board in March 2015 and are reviewed annually.

2.7 As at 6 January 2017 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 6 January 2017**	**Actual to 6 January 2017**
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	70%	64%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	52% (16 of 31 projects to draft)	45% (14 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	95%	95%	None yet made in

Recommendations agreed			2016/17

2.8 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2016/17 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 and Governance 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 and Governance Committee's first meeting of the civic year.

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AS AT 6 JANUARY 2017

2016/17 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					12	Yes	2	In fieldwork
Benefits	Full	0	0	0	12	Yes	12	Final report issued
Council Tax					10	Yes	9.5	Draft report issued
Creditors (CRSA Year 1)	Full	0	0	0	10	Yes	10	Final report issued
Debtors (CRSA Year 1)	Full	0	0	0	10	Yes	10	Final report issued
Main Accounting					12	Yes	3	In fieldwork
NDR					10	Yes	8	In fieldwork
Payroll					12	Yes	7	In fieldwork
Payroll Certificate					1	Yes	1	Complete
Treasury (CRSA Year 2)					6	Yes	2.5	In fieldwork
Operational Audits								
Absence Management					10	BDO	1.5	Terms of reference issued
BACS	N/A	-	-	-	6	Yes	6	Final report issued
Car Parks – New pay & display machines					10	Yes	2	In fieldwork
Cash and Banking	Full	0	0	0	12	Yes	12	Final report issued
Consultants					10	Yes	9.5	Draft report issued
Development Management –					1	N/A	1	Cancelled

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AS AT 6 JANUARY 2017

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
pre applications								
Digital by Default					18	BDO	1	In planning
Elections					10	Yes	4.5	In fieldwork
Enviro Crime	Substantial	0	0	4	15	Yes	15	Final report issued
Freedom of Information	Substantial	0	0	3	10	Yes	10	Final report issued
Health & Safety					12	Yes	10	In fieldwork
Land Charges					8	Yes	1	In planning
Project Management / Benefits Realisation					12	Yes	11.5	Draft report issued
Safeguarding					15	Yes	2	Terms of reference issued – due to start February
Tree Surveying					12	Yes	1.5	Terms of reference issued – due to start February
DFG Capital Grant Certification	N/A	-	-	-	2	Yes	2	Complete
Procurement								
New Payroll Contract – controls assurance					1	N/A	1	Cancelled
Trade / Clinical Waste					12	Yes	11.5	Draft report issued
Land Drainage Contract					3	N/A	3	Cancelled

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AS AT 6 JANUARY 2017

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
IT Audits								
Internet and Email Usage					4	BDO	0.5	In planning
Cyber Risk	Moderate	0	3	2	8	Yes	8	Final report issued
Digital Information Management					4	BDO	0.5	In planning
Shared Learning								
Shared Learning Newsletters and Summary Themed Reports					5	N/A	4	Ongoing
Joint Review – Local authority Trading					5	BDO	0.5	Terms of reference issued – due to start February
Joint Review - PREVENT					5	BDO	0.5	Terms of reference issued – due to start February
Joint Review – CIL					0	N/A	0	Cancelled
Risk Management								
No audits in the plan					0	N/A	0	
Anti-Fraud								
Follow up fraud related themes					0	N/A	0	Cancelled
Strategic Support								
2017/18 Audit Planning					10	N/A	2.5	Ongoing

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AS AT 6 JANUARY 2017

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Audit Committee					15	N/A	10	Ongoing
Client Liaison					10	N/A	7.5	Ongoing
Liaison with External Audit					1	N/A	0.5	Ongoing
Head of Internal Audit Opinion 2015/16					5	N/A	5	Complete
Progress Monitoring					10	N/A	7.5	Ongoing
SIAS Development					5	N/A	5	Complete
Contingency								
Unused Contingency					19	N/A	0	
Follow Ups								
Follow up of high priority recommendations					5	N/A	4	Ongoing
2015/16 Projects requiring completion								
Various					15	N/A	15	Complete
EHC TOTAL					**400**		**242**	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments (last 12 months)	SIAS Comment (December 2016)
1.	Business Continuity Planning (01/10/13)	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. In addition to this, a periodic rolling programme of disaster recovery testing (at minimum requiring some	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. Information captured by services in their Business Recovery Plans will be reviewed in	Director	30 June 2014	<u>March 2016</u> Critical services have completed resource requirement questionnaires and the plan has been updated. Graduate trainee has been allocated to assist the project completion this financial year. Test is planned for March / April 2016 <u>May 2016</u> Critical services have completed resource requirement	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 (last 12 months)	SIAS Comment (December 2016)
		downtime and recovery of IT services) should be performed and then reviewed to make relevant updates to the BCPs.	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.			questionnaires and the plan has been updated. There are some suspected weaknesses in the plan that will be brought out through running a test scenario. HCC Resilience Team will organise once all new EHC senior managers are in place. Revised to 30 September 2016. <u>August 2016</u> Critical services will be required to	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments (last 12 months)	SIAS Comment (December 2016)
						recomplete questionnaires and prepare their plans to reflect the restructure. Revised to 31 December 2016. <u>December 2016</u> The corporate Business Continuity Plan was completed and tested on 31 October 2016. Further testing of the plan and process will take place in the summer of 2017.	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments (last 12 months)	SIAS Comment (December 2016)
						Services are currently preparing their own plans. A number have completed and the remainder will follow in January 2017, enabling reporting to Executive Members in February 2017. Revised to February 2017.	
2.	Business Continuity Planning (01/10/13)	Once the actions related to findings 1 and 2 have been completed, the Council needs to get the Business	Now that the Shared ICT service is in place and IT business continuity	Director	31 March 2014	<u>March 2016</u> Statement of intent from Directors is included in the plan. Director of Finance & Support	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 (last 12 months)	SIAS Comment (December 2016)
		Continuity Plan formally approved and signed off, so that it can be distributed to the relevant members of staff. In addition to this, key stakeholders need to meet and agree on comprehensive roles and responsibilities with regard to business continuity planning, and these responsibilities should be documented within	arrangements are being taken forward then this action will also move forward at the same time.			Services has instructed project completion this financial year. Gold command updated to reflect staffing changes. <u>May 2016</u> Statement of intent from Directors is included in the plan. Risk Assurance Officer has produced an initial Business Continuity framework that can be adjusted as and when needed. Finalisation and	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments (last 12 months)	SIAS Comment (December 2016)
		the plan.				sign off will follow on from the test. Revised to 30 September 2016. <u>August 2016</u> As above, sign-off and finalisation will follow on from test which has been postponed from 22 September to 31 October 2016. Revised to 31 October 2016. <u>December 2016</u> The plan will be formally signed off	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments (last 12 months)	SIAS Comment (December 2016)
						when the service updates (appendices) are complete. The Plan has already been circulated to Leadership Team, and contacts agreed and placed on a secure page of the intranet to improve resilience. Revised to February 2017.	

APPENDIX C AUDIT PLAN ITEMS (APRIL 2016 TO MARCH 2017) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Certificate **Complete**	Trade / Clinical Waste **Draft report issued**	Project Management / Benefits Realisation **Draft report issued**	Consultants **Draft report issued**	Enviro Crime **Final report issued**	Tree Surveying **Terms of reference issued**	Council Tax **Draft report issued**	Treasury Mgmt **In fieldwork**	Debtors **Final report issued**	Creditors **Final report issued**	Land Charges **In planning**	
BACS **Final report issued**		Cash and Banking **Final report issued**			Car Parks – New pay & display machines **In fieldwork**	Benefits **Final report issued**	Payroll **In fieldwork**	Asset Mgmt **In fieldwork**	Internet & Email Usage **In planning**		
FOI **Final report issued**		Cyber Risk **Final report issued**			Disabled Facilities Grant Certification **Complete**	NDR **In fieldwork**	Digital by Default **In planning**	Main Accounting System **In fieldwork**	Digital Information Management **In planning**		

APPENDIX C AUDIT PLAN ITEMS (APRIL 2016 TO MARCH 2017) – START DATES AGREED WITH MANAGEMENT

						Health & Safety* **In fieldwork**	Safeguarding* **Terms of reference issued**	Elections* **In fieldwork**			
							Absence Management **Terms of reference issued**				

<u>*Notes</u>

- Health & Safety audit deferred from May to October at Management's request in view of the absence of the main contact officer.
- Safeguarding audit deferred from July to November at Management's request in view of the revised management arrangements.
- Elections audit deferred from August to December at Management's request in view of other service priorities.

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2017

REPORT BY THE HEAD OF STRATEGIC FINANCE AND PROPERTY

UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT 2016/17 ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- The 2015/16 Annual Governance Statement contains two 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..

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:	
(A)	the Committee reviews the progress made against implementing the action plan contained in the 2015/16 Annual Governance Statement and advises of any recommendations;

1 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 Red, Amber and Green (RAG) basis.

2 Report

2.1 For the purposes of the Annual Governance Statement, internal control is being interpreted in its broadest sense covering both financial and management 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 and Governance Committee on 21 September 2016.

2.4 This is the first position statement report since approval of the Annual Governance Statement. Current positions have been reflected and a RAG status is shown against each action.

Implications/Consultations

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

<u>Background Papers</u>
Annual Governance Statement 2015/16 – Audit Committee 21 September 2016.

Contact Member:	Councillor Linda Haysey, Leader of the Council. Extn: 1650 *linda.haysey@eastherts.gov.uk*
Contact Officers:	Philip Gregory Head of Strategic Finance & Property Extn: 2050 philip.gregory@eastherts.gov.uk
Report Author:	Philip Gregory Head of Strategic Finance & Property Extn: 2050 philip.gregory@eastherts.gov.uk

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy The report summarises progress on implementing key actions with regard to the governance of the Council in 2016/17 and contributes to all the Corporate Priorities.
Consultation:	Extensive consultation took place on the action plan in order to agree the actions.
Legal:	No specific implications arise from this report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	No specific implications arise from this report
Risk Management:	This report documents significant matters related to the ongoing governance of the council.
Health and wellbeing – issues and impacts:	No specific implications arise from this report.

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ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17

Significant governance issues

Required enhancements to internal control arrangements:

Issue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone	Current Position	RAG Status
Impact of Welfare Reform changes	Leadership Team	Oct 2016	• Impending Legislation will have an adverse financial impact on a significant number of residents. Officers will monitor the impact of these changes both on residents and the business of the Council.	• These are being actively monitored by officers in Housing & Health and Revenues & Benefits.	AMBER
			• Provide residents more support for services across the Council through staffing levels, budget management and the communication with residents.	• Heads of Service have assessed their service requirements as part of the Finance and Business Planning process subject to the Budget Report being approved by Council.	AMBER

Issue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone	Current Position	RAG Status
			• Implement Council policies effectively.	• This is ongoing	AMBER
Development of a District Plan that is approved by the planning inspectorate.	Leadership Team	Dec 2017	• Plan to be agreed within required timeframe.	• Plan is currently out for public consultation	AMBER

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 25 JANUARY 2017

REPORT BY LEGAL SERVICES MANAGER

CONSTITUTION WORKING GROUP – INTERIM REPORT

WARD(S) AFFECTED: - ALL

Purpose/Summary of Report

- The Chief Executive submitted a report to Audit and Governance Committee on 21 September 2016 seeking Members' approval to establish a Constitution Work Group (CWG) to carry out a significant review of the Constitution in order to ensure that it was fit for purpose, to facilitate transparency of decision making processes and to better serve the needs of East Herts residents.

- This interim report provides Members with an overview of the CWG's approach so far and welcomes views on the progress made before a survey is carried out and a final report is presented to Members on 22 March 2017 for approval by Council on 10 May 2017.

RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE **That :**	
(A)	**in principle, the ongoing overall approach by the CWG in reviewing the constitution, and as now detailed, be approved; and**
(B)	**Members' comments aimed at enhancing the transparency and usability of a revised constitution be discussed.**

1.0 Background

1.1 The establishment of a Constitutional Working Group (CWG) was approved by Members of Audit and Governance Committee on 21

September 2016 comprising three Members from Audit and Governance Committee and one Member from Corporate Goverance Committee. The CWG has met on two occasions so far and an additional Member (with constitutional experience) also attended the meeting(s) on 11 October and 12 December 2016.

2.0 Report

2.1 Under Section 37 of the Local Government Act 2000, all Councils are required to publish the arrangements for the discharge of its functions within a “constitution”. This sets out how the Council operates, how decisions are made and what procedures need to be followed to ensure that the business of the Council is conducted in an efficient, transparent and in an accountable manner. Parts of the Constitution are required by statute such as the Council’s financial regulatory framework, procurement procedures, and contracts to name a few. As such, the Monitoring Officer has a duty to keep the constitution under review to reflect changes in the law, management structures, job responsibilities and for general administrative purposes.

2.2 The Local Government Transparency Code 2015 places an obligation on the Council to ensure that local people can see how the authority’s money is spent, scrutinise how well it manages its assets, how decisions are taken, who is taking them and how much senior staff are paid and other issues important to local people. This Code and the Localism Act 2011, emphasise that the Government wants to place more power in citizens’ hands to increase democratic accountability and to make it easier for local people to contribute to local decision making and to help shape public services. This can only be achieved by having a transparent approach to Council information and processes.

2.3 In acknowledging the statutory background influencing the content of the constitution, the financial and social benefits to be derived from the publication of information and the remit of the CWG, there is general acceptance of the fact that the Constitution should be user friendly, not only to aid Members and Officers, but to assist East Herts residents in any approach they may wish to make in contacting its elected Members, attending meetings and accessing information or about the business of the Council generally.

2.4 The CWG has met on two occasions when general views were expressed and areas of research and approaches to the terms of reference were considered.

2.5 As opinions have formed, the Group is of the view that the remit of the review should focus on matters mostly of public interest and that this might provide, within the first publication, an overview of the following areas (but could include specific web links to more in depth information / PDFs), specifically:-

The Council (its responsibilities; how often it meets / (what it can't do?);

The Council's Committees and Leadership Structure;

Meetings (how often Council and other meetings consider business and their roles) - summaries only;

Your Elected Members – contact details, Executive roles and portfolios held: (District Wards and HCC Areas);

How "You" the resident, can influence Council Decisions and how to do this e.g. approaching Ward Members, questions and petitions to Council, County Council Members, MPs;

Access to Information / Freedom of Information requests / use of social media during meetings and protocols to be observed;

Other rights of access to information e.g budgets (how the budget is determined, how money is spent, use of assets, how and who are taking major decisions, and how these can be challenged;

2.6 Essentially, the consensus of the CWG is that there should be a "User Guide and Summary" of the Constitution which sits beside the main Constitution. The 'User Guide and Summary' would appeal and be more usable to the public. In addition, it was noted that the main Constitution did not have an index which will need to be rectified and reflected in the User Guide and Summary document. It is anticipated that this document should not be more than approximately 20 pages; possibly illustrated, and should provide a summarised, relevant and focussed approach to the areas identified in paragraph 2.5 (and where appropriate, with hyperlinks to PDFs in the main Constitution).

2.7 It should be noted that a complete refresh of the original constitution at this stage would necessitate re-writing substantial parts and may result in having to seek Department of Communities and Local Government consent. By having a User Guide and Summary would obviate the need to do this and would ensure that statutory guidelines are observed and not compromised.

2.8 Whilst carrying out the review it was also noticed that there were parts of the main Constitution that needed to be addressed and it is intended that this will form part of a separate review in consultation with the Democratic Services Team Leader.

2.9 Transparency is the key and the Council's desire to create a user-friendly version of the Constitution would help provide its residents with the tools for them to seek information, be properly informed and hopefully to play a bigger role in their district and also ensure that the Council continues to comply with and observe ongoing codes and legislation.

2.10 The subject matter in paragraph 2.5 is not an exhaustive list but serves to illustrate examples of what the user-friendly version of the Constitution might include.

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:

Localism Act 2011

Local Government Act 2000 (Rights to a meeting and information)
http://www.legislation.gov.uk/uksi/2012/2089/contents/made

Department for Communities and Local Government "Open and Accountable local government"
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335930/140630_Draft_Openness_Guide_-F.pdf

Market Assessment of Public Sector Information – Deloitte 2013
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198905/bis-13-743-market-assessment-of-public-sector-information.pdf

Local Government Act 1972 (Access to Meetings of the Council)
http://www.legislation.gov.uk/ukpga/1972/70/part/VA

Local Government Transparency Code 2014
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360711/Local_Government_Transparency_Code_2014.pdf

Local Government Transparency Code 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	This is an interim report to A&G Committee. Following feedback from A&G Committee, the CWGs results will be circulated to the Leadership Team. A final meeting will determine the format for further consideration in March 2017 for approval by Council in May 2017.
Legal:	Section 37 of the Local Government Act 2000 requires all Councils to publish and review the arrangements to discharge its functions within a constitution. Other statutes, codes and guidelines, such as the Local Government Act 1972 (meetings), the Localism Act 2011 (transparency) and the Local Government Transparency Codes 2014 and 2015 emphasise clear and transparent decision making.
Financial:	How the proposed "*User Guide and Summary* " document will be disseminated is a matter for further decision. If this is published (as well as appearing on the Council's website) there will be revenue costs in relation to the design, publication (and distribution). These have not been costed.
Human Resource:	*None*
Risk Management:	The Council is required by legislation and guidance codes to ensure that its constitution is fit for purpose. By not carrying out regular reviews, the Council may be in breach of its statutory function under Section 37 of the Local Government Act 2000 and various Codes.
Health and wellbeing – issues and impacts:	*None*

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MINUTES OF A MEETING OF THE STANDARDS SUB-COMMITTEE HELD IN THE COUNCIL CHAMBER, WALLFIELDS, HERTFORD ON TUESDAY 13 DECEMBER 2016, AT 7.00 PM

PRESENT: Councillor C Woodward (Chairman)
Councillors P Boylan and B Deering

ALSO PRESENT:

Councillor G McAndrew

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	-	Democratic Services Officer
Kevin Williams	-	Acting Head of Legal and Democratic Services

ALSO IN ATTENDANCE:

Nicholas Moss	-	Independent Person

6 APPOINTMENT OF CHAIRMAN

It was moved by Councillor B Deering and seconded by Councillor P Boylan that Councillor C Woodward be appointed Chairman of the Sub- Committee for the meeting.

RESOLVED – that Councillor C Woodward be appointed Chairman of the Sub- Committee for the meeting.

7 MINUTES

RESOLVED – that the Minutes, of the meeting held on 29 November 2016, be approved.

8 EXCLUSION OF THE PRESS AND PUBLIC

The Sub-Committee considered whether or not to pass a resolution to exclude the press and public from the meeting during discussion of the item of Minute 9 below on the grounds that it involved the likely disclosure of exempt information as defined in the provision of the Local Government act 1972.

The Sub-Committee also considered whether or not to make the associated report publically available.

The Sub-Committee determined not to exclude the press and public from the meeting during the discussion of the matters at Minute 9 below and to make the associated report publically available.

> RESOLVED – that (A) the press and public not be excluded from the meeting; and
>
> (B) the report associated with the business recorded in Minute 9 below, be made public.

9 INVESTIGATION ON A COMPLAINT AGAINST A FORMER DISTRICT COUNCILLOR

The Council's Monitoring Officer provided a summary of the report and stated that former Councillor J Cartwright was now living in East Africa. He explained that the Investigating Officer had offered to interview Mr Cartwright by Skype which had been declined. Also, no comments had been received in terms of the draft report but that comments had been subsequently received via email on 13 December 2016. These were circulated to Members of the Sub-Committee.

The Chairman stated that the nature of the former Councillor's comments were disappointing and following advice from the Monitoring Officer, Members supported the suggestion that Mr Cartwright's comments be made publically available.

The Monitoring Officer drew Members' attention to the Investigator's Report and recommendations. The Independent Person (IP) explained that, as a matter of formal record, Members needed to consider why the meeting should proceed in the absence of Mr Cartwright. Councillor B Deering commented that Mr Cartwright's email to the Monitoring Officer should provide sufficient validation. Councillor P Boylan added that Mr Cartwright had responded quickly to the Monitoring Officer's email and he had already made a decision not to respond to the Investigator's draft report citing that it was "a complete waste of time".

The IP explained that having considered the evidence, he was satisfied that former Councillor Cartwright was acting in an "official capacity" and there had been a breach of the Council's Code of Conduct. He referred Members to paragraphs 5.20, 5.26 and 5.34 of the report as evidence that the code had been breached and which served to aggravate matters over a long period and that his conduct fell below the expectations the public would have of a Member.

The IP explained that in relation to the breaches of the code, he had also been criticised for other breaches and had failed to attend, as requested, training on the use of Social Media. In mitigation, the IP explained that the breaches were at the "lower end of appropriateness" and that Mr Cartwright did not deny what he had said, that there was some evidence of "pro-action" on his part but that this did not justify the former Councillor's actions. In terms of risk, the IP explained that as he was no longer a Member, the risk he posed of other offences was diminished.

The Monitoring Officer asked Members whether they felt that the former Councillor was acting in an official capacity and whether there had been a breach of the Code of Conduct. He explained that if they agreed that he had acted in an official capacity and that there had been a breach, then the only sanction now available was a motion to censure the former Member at Council. This was supported.

The IP stated that a motion to censure would have no impact on Mr Cartwright personally, but that it was right to let the public at large know.

The Sub-Committee received the report and agreed that Mr

Cartwright had acted in an official capacity and in doing so, had failed to comply with the Code of Conduct. The Sub-Committee agreed that he be censured for his conduct.

RESOLVED - that (A) the report of the investigating officer be received;

(B) former Councillor J Cartwright was acting in his official capacity and in doing so, had failed to comply with the Council's Code of Conduct;

(C) former Councillor J Cartwright be censured for his conduct in respect of the matter detailed in the Investigating Officer's report now submitted; and

(D) the wording of the censure motion be delegated to the Monitoring Officer in consultation with the Chairman of Standards Sub-Committee.

The meeting closed at 7.25 pm

Chairman ....

Date ....