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AGENDA

Committee:	AUDIT
Date and Time:	16th January 2020 at 7.30pm.
Venue:	Committee Room 1
Membership:	Councillors Cutler (Chairman), Blackwell, May, Sharp and Mrs Thornton Substitutes: Councillors Acott, Mumford, Skipp and Thomas
Officers attending:	Chris Mills, Strategic Director (Resources) Lance Wosko, Financial Services Manager Ben Brook, Strategy Policy and Performance Manager Andrew Barnes, Head of Internal Audit Michael Dineen, Senior Manager, Counter Fraud & Investigation Directorate
Also attending	Debbie Hanson, Associate Partner, EY
Enquiries:	Ann Horgan, Ext. 2413

PART I **(Business to be taken in public)**

- 1. Apologies**
- 2. Members' Interests**
- 3. Minutes**
A copy of the Minutes of the meeting held on 24th October 2019 is attached.
- 4. Quarterly Monitoring Report of the Council's Governance Arrangements**
Report of the Strategy Policy and Performance Manager is attached.
- 5. Counter Fraud & Investigation Directorate: Quarterly Performance Report 2019/20:**
Report of the Senior Manager, Counter Fraud Investigation Directorate is attached.

- 6. Internal Audit: Quarterly Performance Report 2019/20:**
Report of the Head of Internal Audit is attached.
- 7. Treasury Management and Investment Strategies 2020/21**
Report of the Financial Services Manager is attached.

Current Information Items (standing item)

EY: Local Government Audit Committee Briefing, December 2019

CIPFA: Fraud and Corruption Tracker, November 2019

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AUDIT COMMITTEE

24TH OCTOBER 2019

PRESENT: Councillors Cutler (Chairman), Acott (substitute for Councillor May) Blackwell, May, Sharp and Mrs Thornton

Councillor Hart also attended.

Head of Internal Audit, Andrew Barnes, Financial Services Manager, Ian Stapleton, Ben Brook, Strategy Policy and Performance Manager and Debbie Hanson, Associate Partner (EY) were also present.

Apologies for absence were received from Councillor May.

10. MEMBERS' INTERESTS

There were none.

11. MINUTES

The Minutes of the meeting held on 25th July 2019 were taken as read and signed as a correct record.

12. EY ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2019

The External Auditor's Annual Audit Letter for 2018/19 was presented to the Audit Committee. It was intended to be a short document, aimed at the public, to inform them about the results of the audit.

The Annual Audit Letter summarised the key issues arising from the work EY had carried out during the year as the Council's auditors and highlighted the key findings that should be considered by the Council.

Members were pleased to note the very positive letter that there were no issues. Regarding the value for money conclusion, it was noted that the arrangements to address the funding gap in future years were sound. The adoption of a Local Plan identified as a risk would be updated in the light of the Council's recent decision to approve the draft local plan for Regulation 19 consultation and submission to the Secretary of State.

Resolved – to approve the EY Annual Audit Letter for the year ended 31st March 2019.

13. INTERNAL AUDIT SERVICE, QUARTERLY PERFORMANCE REPORT

The Head of Internal Audit presented to the Committee a report on progress made in delivering the Internal Audit Strategy for 2019/20.

Appendix A to the report set out the current status of audit work planned for the year as at 10th October 2019. One change had been made to reassess the scope of four pieces of work identified since the Plan was last reported to the Audit Committee in March 2019 so that audit work was focussed appropriately to deliver the best outcome from resources available.

Appendix B summarised the results of the audit work completed this year. No minimal assurance opinions had been issued to date

Appendix C set out details of Stakeholder Surveys and Compliance with Professional Standards.

In response to questions it was confirmed that audit work was concerned with examination of processes.

Resolved – That the progress made in delivering the 2019/20 Internal Audit Strategy is noted.

14. QUARTERLY MONITORING REPORT OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS

A report was presented to the Committee and discussed on the findings from the quarterly monitoring of the Council's governance arrangements. In response to a request from Members at the last meeting the report included an appendix providing an update on actions to address the issues identified in the Annual Governance Statement which was welcomed by the Committee.

Resolved –

That the Committee notes the assurance provided by the report with regard to the operation of the Council's governance framework and the progress against the action plan to address significant governance issues identified in the Annual Governance Statement.

15. COUNTER FRAUD AND INVESTIGATION DIRECTORATE: QUARTERLY PERFORMANCE REPORT

The Committee considered a report setting out the progress made by the Counter Fraud and Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and work programme for 2019/20. The report included the performance of the service which was now aligned to financial year reporting from its previous reporting period set at the municipal year.

Appendix A to the report outlined the progress which had been in delivering the agreed proactive counter – fraud work plan for the year. The value of suspected fraud under investigation amounted to £510,700. Members were pleased to note the progress.

In discussion of the report and the cyber-crime risk assessment being undertaken across the Council Members expressed interest in receiving additional information regarding the risk matrix.

Resolved:

1. To note the performance of the Counter Fraud & Investigation Directorate over the last year.
2. The Audit Committee agrees to the revised reporting periods to align the Counter Fraud & Investigation Directorate with other 'audit committee' reporting periods (financial year reporting).

16. TREASURY MANAGEMENT ACTIVITY MID-YEAR REPORT

As required by the Council's reporting procedures the Treasury Management mid-year activity report was presented to the Committee. The report summarised the Council's Treasury Management activity for the first six months of the current financial year. Supporting information was provided in two annexes to the report.

The report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council was required to comply with both codes through regulations issued under the Local Government Act 2003.

In addition, Committee considered a recommendation from the Strategic Director (Resources) to add two new types of non-specified investments to the approved list of counterparties for 2019/20. This change in the Investment Strategy would require approval by Cabinet and Council.

In responding to Members questions regarding the management of investments in-house, Members were assured by the Council 's external auditor that this was common practice undertaken by all local authorities.

Resolved:

1. That following scrutiny, the Treasury Management mid-year activity report for 2019/20 is approved and submitted to Cabinet.
2. The amendment to the 2019/20 Investment Strategy, is approved and submitted to Cabinet and Council.

17. CORPORATE RISK REGISTER UPDATE REPORT

The Audit Committee received an considered an update report on Risk Management matters, specifically the Corporate Risk Register.

The Corporate Risk Register had recently been reviewed by the Financial Services Manager in consultation with Heads of Service and other key officers as part of the six-monthly review cycle and had been agreed by Executive Management Team (EMT).

Audit Committee – 24th October 2019

The Corporate Risk Register was before the Committee, attention was drawn to a new risk 9: A long term Housing Revenue Account business plan which is unsustainable in future years.

Resolved – to note the Corporate Risk Register.

Chairman

AGENDA ITEM NO.4

Committee: **AUDIT COMMITTEE**

Date: **16th January 2020**

Subject: **Quarterly Monitoring Report of the Council's
Governance Arrangements**

1. Purpose of Report

- 1.1 To present the findings from the quarterly monitoring of the Council's governance arrangements.
- 1.2 To report on progress against the action plan to address significant governance issues as identified in the Annual Governance Statement

2. Background

- 2.1 Part of the requirement of the Council's governance arrangements is a quarterly report on the operation of the assurance framework for the Council. The assurance process includes the work of external auditors and is supplemented by the work of the internal audit service, as well as other assurance processes, including internal officer and member processes.
- 2.2 The Committee will be aware that governance arrangements include individual staff leads who have taken responsibility for the governance processes set out below and are members of the Governance Group. This report was developed in consultation with officers from this group.

3. Monitoring Results for Key Governance Processes

3.1 Community Engagement

- 3.1.1 Assurance arrangements are satisfactory. Services undertake specific consultation as required to inform the development of new policies and shape future service delivery; service plans for 2020-22 are now in draft and include the results of the latest consultations and customer feedback. The 2019 refresh of the corporate plan included updated results from the "Place Survey" commissioned by Essex County Council. The Council also continues to carry out customer satisfaction surveys. For example, the Housing Service undertake a range of specific surveys on issues such as Repairs & Maintenance and Voids & Lettings. The Leisure Service receive regular feedback from service users which is used to improve the leisure offer.

3.2 Business Strategy and Planning

- 3.2.1 The arrangements for business strategy and planning are adequate. Directorate plans and service plans are in place for the current financial year and new plans are being developed for implementation from April 2020. Progress on delivery of these plans is reported in highlight reports to Corporate Management Team each month. The corporate plan was refreshed earlier this year and adopted by Full Council in October 2019.

3.3 Financial Planning, Reporting and Budgetary Control

- 3.3.1 Robust processes are evident to be assured that the arrangements for financial planning, reporting and budgetary control are effective. For example, a budget exception report is considered by the Executive Management Team (EMT) and Cabinet Members monthly. Variances at year end are reported on all service areas, with commentary on those more than +/- £10k, and analysis of changes in income and expenditure from the previous financial year. External assurance will be provided by the annual audit of the Council's Statement of Accounts and the work of external audit. The processes in place give adequate officer and member assurance.
- 3.3.2 The Council maintains a five-year rolling financial forecast which is reviewed and reported through to Cabinet on a bi-monthly basis unless there is no significant change to report. The forecast is supported by three years detailed budget workings with the final two years of the forecast being adjusted for future anticipated cost pressures. Assumptions adopted in the forecast are contained in a detailed report made to Special Council in February annually.
- 3.3.3 The Council maintains a level of reserves more than the minimum level recommended by the Council's Chief Finance Officer and has set a balanced budget for 2019/20. Full Council agreed the Policy Framework and Budget Setting report in February 2019 which included the financial planning strategy, the medium-term financial forecast and a summary of completed efficiency work.
- 3.3.4 The process for setting a balanced budget and Council Tax for 2020/21 is progressing well. The Queen's speech (December 2019) restated the Government's commitment to a review of the business rates system which is vitally important to local government funding and which will inform the Council's medium-term financial forecast for years 2021/22 and beyond.

3.4 Asset Management

- 3.4.1 There are adequate routine assurance processes in place, which include programmed asset management sessions at Operational Management Team. Significant asset management issues are referred to the Strategic Asset Group and major projects are subject to the Council's project management methodology and are reported to Cabinet.
- 3.4.2 The Housing Strategy and Corporate Asset Management Plan both contain progress in asset management activities and plans which contribute towards the short, medium and long term aims and objectives of the Council in relation to asset management.
- 3.4.3 A biennial programme of planned repairs and maintenance is in place for corporate buildings. Funding provision has been earmarked and completion of all works is planned within the lifetime of the current medium-term financial forecast.
- 3.4.4 At the start of this financial year, new computer equipment was rolled out across the organisation as part of the planned upgrade to Windows 10. All ITC-related assets - including infrastructure such as servers, network equipment etc - are managed as part of the Council's contract with Capita
- 3.4.5 The Council owns a small fleet of vehicles and runs a vehicle maintenance workshop to carry out ongoing checks, servicing and repairs. We look to replace these vehicles with new vehicles every seven to eight years.

3.5 Policy Framework

- 3.5.1 The policy framework operates satisfactorily; policies and strategies largely continue to be refreshed by services. A register of policies and strategies is in place and updated annually. The policy framework is set out in the Business Planning and Budget Framework which was reported to Cabinet in October 2019.

3.6 Risk Management

- 3.6.1 The Risk Management Policy and Strategy was refreshed and approved by Audit Committee in January 2018. Two workshops have been delivered to all senior staff on the approach, but have particularly focused on:
- Designing and implementing efficient controls that have the right effect on Impact and Likelihood
 - Ensuring robust assurances are available when monitoring risk
 - Having a consistent understanding of the approved risk appetite of the Council
 - Everyone contributing to an effective risk management framework that ensures the Council's overall tolerance for risk is not breached.
- 3.6.2 A Risk Management Health Check has been performed by an external consultant and officers are delivering an approach to address the areas for improvement identified by that review.
- 3.6.3 A corporate risk register continues to be in place and is subject to monitoring by EMT. Risks have been identified as part of the development of team and service planning and risks get escalated to the corporate risk register should the identified issue be considered significant. The corporate risk register is a separate agenda item for consideration by this committee

3.7 Health and Safety

- 3.7.1 As an employer the Council continues in its aim to meet its statutory Health and Safety duties and employs a competent person to assist with this. The competent person, who as the corporate health and safety lead, maintains an overview of Council arrangements and provides analysis on current management performance. Any significant health and safety issues are escalated to EMT
- 3.7.2 The key functions of the corporate health and safety lead is to monitor and review departmental health and safety arrangements and advise the Council's Operational Management Team in embedding a positive health and safety culture, where risk is managed sensibly and balanced with specific aims to improve overall safety performance. A section on Health and Safety has been added to the 'How it Works' guidance for managers.

3.8 Business Continuity

- 3.8.1 Arrangements in place are satisfactory, with business impact assessments undertaken by all service areas. A strategic business risk assessment was approved by EMT in May 2019.
- 3.8.2 A corporate generic business continuity response plan exists, which has recently been subject to full review and revision, as part of a three-year cycle.
- 3.8.3 The subject of business continuity is incorporated into the quarterly risk management sections of Operational Management Team meetings.
- 3.8.4 The Council's emergency planning and business continuity framework document produced in 2018, describes how the Council will go about meeting its duty to be

suitably prepared for dealing with emergencies and disruptions to the organisation's ability to deliver its critical services to the public.

3.9 Performance Management

- 3.9.1 Core processes operate satisfactorily, including highlight reporting to Corporate Management Team (CMT) and the production of a corporate performance scorecard, refreshed for the 2019/20 financial year, which is considered quarterly by CMT and Cabinet. The indicators in the corporate scorecard help to show progress in the delivery of the objectives in the corporate plan. The service and directorate plans include performance indicators for both council-run services as well as for services provided on our behalf by contractors or partners.
- 3.9.2 Control arrangements also include the production of quarterly reports of performance indicators by all services from the performance database.
- 3.9.3 At an individual level, all employees are set objectives at the beginning of each appraisal year and performance is discussed in one-to-one meetings and at annual appraisals.

3.10 Data Quality

- 3.10.1 Arrangements are satisfactory. The service planning process includes a requirement for team managers and heads of service to sign a declaration which includes consideration of data quality and the commitment to spot checking of data. Internal audit review the arrangements to ensure data quality where this is relevant to the audit work being undertaken.

3.11 Value for Money

- 3.11.1 Arrangements are in place and the assurance processes are operating appropriately. For example, a programme of work to identify and obtain efficiencies is in place for council services and is set out in the corporate plan. The Council has also identified a set of value for money ratios and these are used to monitor progress and retain understanding of comparative value for money. These were considered by EMT in February 2019.

3.12 Procurement

- 3.12.1 There are satisfactory arrangements in place and the assurance processes are operating appropriately. Procurement is integrated into the meetings of the Operational Management Team.
- 3.12.2 The Council's commissioning and Procurement Strategy was updated in 2018 and the Procurement Toolkit also refreshed in 2018, to reflect changes in legislative requirements and internal procedures.

3.13 Partnerships

- 3.13.1 Assurance processes are subject to further development work. A partnership strategy and framework is now drafted; this will help clarify the arrangements currently in place and how these link to the objectives of the authority. The Partnerships Register was updated in September 2019 and an analysis of this register by difference types of partnership was presented to EMT in November 2019. Further work is planned to set out the performance reporting arrangements for key partnerships.

3.14 Project Management

- 3.14.1 Assurance processes whilst satisfactory are subject to further development work. The service plans include an indication of planned projects with a prioritisation. Some of these projects - including the local plan; improvements to the Paddocks; development of more social housing; and regeneration in Hadleigh town centre

and Canvey seafront – have been incorporated into a corporate action plan which is monitored monthly by CMT through highlight reporting, as well as through two more detailed reviews over the course of the year: Project management arrangements have been reviewed. The Council's Project Initiation Document (PID) - a key part of the framework - has now been revised and trialled; any new projects identified in service plans will use this template.

3.15 Complaints

- 3.15.1 There is a complaints policy in place and monitoring of complaints is through a database. Further work is needed to ensure that all parts of the organisation record their responses to complaints in this database. Work has been undertaken on the website which has improved signposting to the organisation best placed to respond to the complaint.

3.16 Ethical Governance

- 3.16.1 Satisfactory arrangements are in place. A common code of conduct is also in place along with appropriate mechanisms including a Review Committee. New Members of the Council have received induction training on the code of conduct and have completed the necessary register of interests.
- 3.16.2 There are appropriate assurance arrangements in place to ensure high standards of officer conduct. This includes a range of human resource policies and procedures. The processes in place continue to give adequate assurance.

3.17 Information Governance

- 3.17.1 The Council has implemented an information governance strategy, which is underpinned by associated guidance. The Council's Head of Law acts as the Senior Information Risk Owner. The 'How it Works' guidance also contains a section on information governance.
- 3.17.2 The General Data Protection Regulation (GDPR) became a statutory requirement from the 25th May 2018, and together with the new Data Protection Act 2018 which has superseded the Data Protection Act 1998 it expands the rights of individuals to control how their personal information is collected and processed and places a range of new obligations on organisations to be more accountable and transparent when processing personal data. The Council has made good progress in working towards meeting the requirements of GDPR and this work is led by the Head of Law.
- 3.17.3 The Data Retention Policy was updated in Spring 2019 and a session was held with OMT in June 2019.
- 3.17.4 A further session on information governance was held with OMT in September 2019 following which Information Asset Registers have been updated. In October, a check of how the Council's clear-desk policy was working was undertaken, giving further assurance that the Council complies with Data Protection Legislation.
- 3.17.5 Good progress has been made on the recommendations from a GDPR Audit carried out early in 2019. A follow-up audit was conducted in December 2019 and we are waiting to hear from auditors with their conclusions.

4. Progress on the action plan in the Annual Governance Statement

- 4.1 As requested and agreed at Audit Committee on 25 July 2019, this report includes as Appendix 1 the action plan from the Annual Governance Statement with an update position.

5. Corporate Implications

a. Legal implications

There are no direct legal implications arising from this report.

b. Financial implications

There are no direct financial implications arising from this report.

c. Human Resource & Equality

The monitoring and development of the assurance framework is delivered within existing resources.

The Council's equality policy is applied as an inherent element of the assurance processes. Equality is also an area that is subject to audit scrutiny. All key decisions require an Equality Impact Assessment.

d. IT and Asset Management implications

There are no direct IT or Asset Management implications arising from this report, beyond those reported in 3.4.

6. Links to Council's priorities and objectives

Assurance processes and improvement work support the delivery of all the Council's priorities and objectives.

7. Timescale for implementation and risk factors

The monitoring of the effectiveness of the assurance framework will be undertaken every three months and reported to the Audit Committee. The Council will not be able to fully achieve its objectives and priorities without a robust assurance framework.

Recommendation:

The Audit Committee notes the assurance provided by this report about the operation of the Council's governance framework.

Background Papers: Local Code of Governance

Report Author: Ben Brook, Strategy, Policy and Performance Manager
bbrook@castlepoint.gov.uk 01268 882220

Appendix 1 – Action plan to address significant governance issues identified in the Annual Governance Statement

Number	Issue	Action 2019/20	Date of implementation	Responsible officer	Update on Progress
1.	Need to ensure the Local Plan is progressed and submitted for consideration.	Programme in place and subject to intervention to ensure timescales are met.	December 2019	Head of Place and Policy	Full Council approved the draft Local Plan for Regulation 19 consultation on 22 October 2019. The Council also approved the Local Development Scheme (LDS) which sets out how we manage the plan-making process. The LDS requires consultation at Regulation 19 which started in December 2019.
2.	Need to ensure sufficient savings and revenue is identified so that there is no budget gap in 2020/21 and in future years.	Develop and implement Commercial Council Strategy.	March 2020	Strategic Director (Resources)	The strategy is now in draft form and includes a proposed set of commercial principles. The new strategy will be adopted in March 2020. To complement this work, the Council has recently joined the Essex Commercial Network to understand and explore commercial opportunities across the county.
3.	Clarify strategic approach to partnership working.	Develop a Partnership Framework and associated Strategy.	March 2020	Strategy, Policy and Performance Manager	A partnership strategy and framework is now drafted; this will help clarify the arrangements currently in place and how these link to the objectives of the authority. Further work is planned to set out the performance reporting arrangements for key partnerships.

Number	Issue	Action 2019/20	Date of implementation	Responsible officer	Update on Progress
4.	Work with the South Essex 2050 partnership to develop the vision for region and long-term ambitions and to further develop the corporate plan.	Through the development of the South Essex 2050 partnership vision and associated strategy and planning arrangements.	June 2020	Chief Executive Head of Place and Policy	<p>There are two key elements to the South Essex 2050 project. The first is the vision/ambition and priorities; and the second the Joint Strategic Plan (JSP).</p> <p>The preparation of the Joint Strategic Plan (JSP) has run concurrent with the development of the wider strategies for South Essex. A new Local Development Scheme (LDS) for the plan needs to be approved.</p> <p>This new LDS will reset the timescales for this performance indicator.</p>
5.	Need to simplify and clarify project management arrangements	Implement new arrangements and ensure responsibilities for monitoring is clear.	March 2020	Strategy, Policy and Performance Manager	<p>The existing project management methodology and framework has been reviewed and revisions held in draft form. Alongside this, conversations have taken place across the Council to better understand views on the existing project management arrangements and how these can be improved to make them simpler but still effective.</p> <p>The Council's Project Initiation Document (PID) - a key part of the framework - has been improved and is being trialled before rollout. Any new projects identified in service plans will use this template.</p>

Number	Issue	Action 2019/20	Date of implementation	Responsible officer	Update on Progress
6.	Strengthen the approach to business continuity	Undertake review of strategic and tactical business impact analysis and produce a mitigation and continuity options document. Business Continuity also features in this year's Internal Audit reviews.	March 2020	Facilities and Asset Manager	<p>A strategic 'Business Risk Assessment' was approved by EMT in May 2019.</p> <p>Subsequently, a hierarchy of strategic priorities has also been produced and endorsed. Work is currently underway reviewing the tactical Business Impact Analysis (BIA), which will inform the strategic BIA and assist in the identification of mitigation and continuity options.</p>

AUDIT COMMITTEE

16th January 2020

Subject: Counter Fraud & Investigation: Quarterly Performance Report (Q3)

1. Purpose of Report

To update the Audit Committee on the progress made in delivering the corporate Counter Fraud & Investigation strategy for the Council in 2019/20.

The report includes the performance of the service which is now aligned to financial year reporting from its previous reporting period set at municipal year

2. Counter Fraud Proactive Work Plan

Appendix A outlines the progress made in delivering the agreed Counter Fraud Proactive Work Plan for this year (2019/20).

The team is making good progress in delivering the planned work. If during the year any changes or additions to the plan are proposed between CFID and the Section 151 Officer, these will be brought back to the Committee and included in an amended work plan.

3. Investigations

CFID continues to deliver investigations into incidents of suspected fraud or other economic crime for the council.

The figures represent activity undertaken by CFID

Number of suspected fraud reports received within Q3:	8
Number of closed investigations during Q3:	3
Number of ongoing investigations:	7
Value of suspected fraud under investigation:	£288,400

This month a new Counter Fraud Hub will be opened on-site, with CFID officers holding drop-in sessions and workshops with council areas to better understand the fraud risks and increase fraud reporting opportunities.

4. Contribution to Council's Aims and Priorities

Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

Financial Implications

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

Legal Implications

The Accounts and Audit Regulations 2015 Section 3 requires that:

The relevant authority must ensure that it has a sound system of internal control which:

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

People Implications:

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

Consultation / Equalities Impact Assessment:

None

Risk Assessment

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

A closer working relationship is being sort with the internal audit team to ensure that any overlapping areas of concern can be detected early and corroborative working can be utilised. To assist with this, CFID will produce

monthly reports to the Section 151 Officer and the Head of Audit detailing the investigations of CFID and the appropriate risk area.

It is also the hope of the CFID that a return in monthly reporting will be completed by the internal audit team, identifying the current audits taking place and if any concerns are being identified. This will capture early warnings of risk to the authority and allow officers from the CFID to assess if intervention is required in specific circumstances where criminality may be present.

Value for Money

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

As can be seen from the results already obtained from the CFID actions, actively seeking and identifying criminality allows the authority to gain back money that would have otherwise left the budgets of various service areas of the authority. This in itself is a positive step; however the subsequent message sent to those who seek to abuse the financial stability of the authority is such a deterrent that further 'unmeasured' savings will be made by deterring future criminality against the authority.

Community Safety Implications and Environmental Impact:

None

Recommendation

To note the performance of the Counter Fraud & Investigation Directorate to date.

Background Papers

- Fighting & Corruption Fraud locally, the Local Government Fraud Strategy
- Crowe Whitehall & Clarke Annual Fraud Indicator 2017

Appendices

- Appendix A: Counter Fraud Proactive Work Plan

Report Author: Michael Dineen, Senior Manager, Counter Fraud & Investigation.

Counter Fraud & Investigation



Counter Fraud Pro-Active Work Plan 2019/20



Proactive Work Plan

Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
Council-wide	Launch a new e-Learning Package for Countering Fraud, Bribery, Corruption and Money Laundering.	July – Sep 2019	A new e-learning package has launched and staff are currently completing this via the ICT system	Michael Dineen	Sep 2019
Council-wide	Develop an early intervention risk matrix for social housing tenants targeted by criminality.	April 2020	This has been created and liaison with the housing management team is due to take place in January.	Philip Butt	
Council-wide	Cyber-crime risk assessment across the council.	Nov 2019 Due to change anticipated to be completed by April 2020	This is being completed, however upon initial assessments against high risk areas, the project's scope has widened that will cover all aspects of ICT. The project now includes CFID, ICT and Capita to cover all aspects.	Dave Nash	
Council-wide	Enhancing counter fraud and money laundering controls for Finance & Revenue teams.	Nov 2019	The new money laundering procedure has been implemented.	Michael Dineen	Nov 2019



Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
Council-wide	Renewed Education & Marketing Campaign for Countering Fraud, Bribery, Corruption and Money Laundering	January 2020	New posters and leaflets will be provided to the authority to highlight the different crime types that are affecting the authority. This is to coincide with the CFID team moving into the mezzanine area.	Nicholas Coker	
Revenues	Use of Data Matching Solution to compare NNDR data with law enforcement data.	April 2020	This project is currently within the planning stage with law enforcement interaction agreements being signed. Upon completion the NNDR data will be fed into the data matching programme with the results identifying possible fraudulent claims.	Nicholas Coker	

AUDIT COMMITTEE

16th January 2020

Subject: Internal Audit Service: Quarterly Performance Report 2019/20

1. Purpose of Report

To update the Audit Committee on progress made in delivering the Internal Audit Strategy for 2019/20.

2. Internal Audit Plan Status

Appendix A sets out the current status of the audit work planned for the year as at 17th December 2019. This also highlights where audits contained in the original plan considered by the Audit Committee in March 2019 have changed.

Changes are being made to the scope of some of the work in the Audit Plan since it was last reported to the Audit Committee in October 2019, so that the work is focussed on delivering the maximum impact for the Council.

3. Audit Opinions and Themes

Appendix B summarises the results of the audit work completed since the last Audit Committee.

4. Performance Targets

As outlined in the Strategy presented to the March 2019 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.

As at 17th December 2019:

- the team has had 4.5 days of sickness absence since April 2019 (which impacts on productivity) and equates to 0.74 days per FTE
- of the jobs in the plan:
 - 21% final reports have been issued
 - 16% have reports being produced or discussed
 - 16% are in progress
 - 21% are being scoped and planned, or have terms of reference produced
 - 26% are resourced and booked, but yet to be started.

A summary of the results arising from the Stakeholder surveys is attached at **Appendix C**. These are completed throughout the year as audits are completed. Three people have responded to surveys to date in 2019/20, covering three audit reports.

Overall the feedback obtained remains very positive, with the results showing that stakeholders find the service to be flexible, communicative, collaborative and of value to the organisation. The results also show that the service needs to develop its skills around demonstrating a good level of knowledge and understanding of services when discussing the potential scope and objective to be covered by the audit and then providing relevant evidence to back up our findings when required.

5. Resourcing

The Collaborative Working Agreement for Internal Audit sets out that all the posts for the combined team will be part of Southend-on-Sea Borough Council's establishment. This approach has been taken as it is felt that:

- this will increase the chance of filling the remaining vacancies
- it will create a more cohesive team.

Therefore, the combined structure consists of:

- two Audit Managers (both in post)
- two Senior Auditors (one post vacant)
- four Auditors (two posts vacant)
- cash (from the vacant posts) to buy in specialist and other services on behalf of both sites.

That leaves the combined team with three vacancies. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.

The expected requirements of the internal audit service into the future continue to evolve and this is being assessed to determine the most appropriate team model utilising the financial resources available. Work is also ongoing integrating two recently recruited members of staff into the team. Once the current team resourcing and integration activities are complete, this will then be implemented to result in an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to deliver the internal audit service required by the organisations that it serves.

6. Corporate Implications

Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

Legal Implications

The Accounts and Audit Regulations 2015 requires the Council to operate an effective internal audit taking into account the UK Public Sector Internal Audit Standards. The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

7. Human Resources and Equality Implications

Human Resources

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

Regular updates are provided to the Audit Committee on how the service is being resourced (as required by the Internal Audit Standards).

Equality Implications

The relevance of equality and diversity will be considered during the initial planning stage of each audit, before the Terms of Reference are agreed.

IT and Asset Management Implications

People or asset management issues that are relevant to an audit will be considered as part of the review.

8. Links to Council's Aims, Targets and Objectives

Audit work contributes to the delivery of all of the Council's Aims, Targets and Objectives.

9. Timescale for Implementation

The Audit Plan relates to the 2019/20 financial year.

This is a key piece of evidence available to the Audit Committee when reviewing the Annual Governance Statement, which will be presented to the Audit Committee after the end of the financial year.

10. Risk Factors

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its Corporate Aims, Targets and Objectives. A key mitigating factor is the work of the Good Governance Group (the Group). Assurance provided by this Group is summarised in the Quarterly Monitoring Report of the Council's Governance Arrangements.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource at all or in a timely manner
- lack of management capacity to support and develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- possibility that the external supplier won't deliver contracted out work within the required deadlines or to the expected quality standards
- need to maintain relationships with clients / partners.

Recommendations:

The Audit Committee notes the progress made in delivering the 2019/20 Internal Audit Strategy.

Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Service Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

Appendices

Appendix A Internal Audit Plan 2019/20

Appendix B Opinions and Summaries

Appendix C Stakeholder Survey Results 2019/20

Report Author: Andrew Barnes, Head of Internal Audit

Appendix A: Internal Audit Plan 2019/20

Dept	Service Activity	Fraud risk	Status as at 17/12/19
Managing the Business			
All Aims			
Res	IT – Management of Capita contract and system upgrade/s	No	Audit scope being reassessed to ensure the focus is appropriate to deliver the optimum outcome. Planned for January to March 2020. Resources agreed with contractor.
Res	Business continuity	No	Planned for January to March 2020. Resources agreed with contractor.
<i>Implementing Action Plans</i>			
SD, MO	Information Governance, General Data Protection Regulation	No	Draft report being discussed with the client.
Managing Service Delivery Risks			
Aim: Environment			
Env	Management and monitoring of Street Cleaning and Ground Maintenance contract with Pinnacle	No	Work in progress.
Env	Management and monitoring of contract with JAD Security	Yes	Work in progress.
Env	Collection of income from other paid for services, such as garden and trade waste, pitch hire, community halls and bowling clubs	Yes	Audit scope being reassessed to ensure the focus is appropriate to deliver the optimum outcome. Planned for January to March 2019.
Aim: Housing and Regeneration			
H&C	Housing Management Service Level Agreement with South Essex Homes	Yes	Planned for January to March 2020. Resources agreed with contractor.

Appendix A: Internal Audit Plan 2019/20

Dept	Service Activity	Fraud risk	Status as at 17/12/19
<i>Implementing Action Plans</i>			
SD, MO	Building control	Yes	Audit scope being reassessed to ensure the focus is appropriate to deliver the optimum outcome. Planned for January to March 2020.
SD, MO	Development control	No	Terms of reference agreed.
All	IDOX system governance and change management	Yes	Work in progress.
H&C	Licensing	Yes	Planned for January to March 2020.
Aim: A Commercial and Democratically Accountable Council			
No specific audit work planned, although a number of the audits planned do contribute towards assurance over this aim.			
Aim: Health and Community Safety			
SD, MO	Safeguarding arrangements for adults and children	No	Planned for January to March 2020. Resources agreed with contractor.
Key Financial Systems			
All Aims			
All	Accounts receivable	Yes	Completed December 2019.
All	Accounts payable	Yes	Completed December 2019.
SD, MO	Payroll	Yes	Draft report being prepared.

Appendix A: Internal Audit Plan 2019/20

Dept	Service Activity	Fraud risk	Status as at 17/12/19
Grant Claims			
Env	Disabled facilities capital grant determination	Yes	Complete September 2019.
SD, MO	Interreg Go Trade grant	Yes	Certification round 4 submitted 8 August 2019. Next certification round due January 2020.
Advice and Support Work			
Res	Paddocks community hall	No	Planned for October 2019 to March 2020, subject to Council progress with project. Resources agreed with contractor.
H&C	HRA new property build projects	Yes	Interim Management report being prepared for phase 3 of the build.
Managing Delivery of the Audit Plan			
	Audit Planning and Resourcing		
	Managing Audit Plan Delivery		
	Reporting to Executive Management Team and Audit Committee		

Appendix A: Internal Audit Plan 2019/20

Audit Activities	Resource allocation
Managing the Business	15%
Managing Service Delivery Risks	50%
Key Financial Systems	12%
Grant Claims	5%
Advice and Support	4%
Managing Delivery of the Audit Plan	14%
Total	100%
Total Council Audit Plan Days	274

The days required to revisit and retest action plans from previous reports are included under each heading.

Analysis Over Departments		
Env	Environmental	17%
H&C	Housing	26%
Res	Resources	29%
SD, MO	Strategic Director, Monitoring Officer	11%
All	Cross cutting	3%
All	Managing Delivery of the Audit Plan	14%
	Total	100%

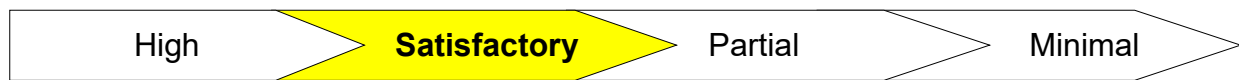
Appendix 2a: Internal Audit Plan 2019/20

Risk Watch List	
Res	Renewal of Capita Contract
Env	Estate Management
H&C	Strategic Planning / Housing Strategy / Local Plan
H&C	Review of Northgate System
H&C	Governance arrangements for Grant and State Aid Funding
H&C	Case Management System
SD, MO	Thames Estuary 2100 Plan
SD, MO	Canvey Island Seafront
SD, MO	Hadleigh Town Centre Gateway Site
Res	Health and Safety of Employees, Agency Staff and Contractors
H&C	Restructuring of services following the introduction of Universal Credit
Res	Essex Procurement Hub
H&C	Private Sector Housing
All	Working with Community Groups and Partners

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix B: Audit Opinion and Themes

Assurance



Accounts Receivable 19-103

Objective

To assess whether the key controls in the Accounts Receivable system effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing Castle Point Borough Council's (the Council) statement of accounts.

Themes

Policies and Procedures

A number of procedural guides are available to staff covering a variety of topics, such as expected debt enforcement action and the raising of credit notes. However, the procedural guidance has not been reviewed regularly, with one procedural note dated 2010. We were informed that a review is currently underway but has not yet been completed. These procedural guides are available to staff via the shared drive, along with the Sundry Debtors Credit Policy (the Policy).

The Policy was confirmed to have been last reviewed in March 2019, and approved by the Financial Services Manager. However, numerous versions of the Policy are located in the same folder within the shared drive, increasing the risk that incorrect guidance may be followed. Management seek assurances that correct procedures are being followed through a number of checks, such as sample checks of invoices, review of credit notes, and other methods which are detailed in the sections below.

Raising of Invoices

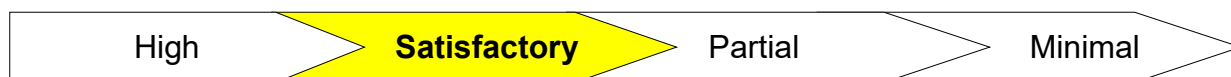
Invoices are raised by individual departments using the eFinancials system. However, there is no review and approval process for this and, therefore, not a consistent approach across the Council. Introducing a check of invoices for departments will help to ensure that invoices are correctly raised for all income due.

The Accounts Receivable Team complete monthly spot checks of invoices in order to assure themselves that invoices have been raised with correct VAT applied, correct contact details and have been invoiced before the service has been provided. However, these checks consist of an examination of only four invoices (from a total of approximately 150 per month) after they have been raised, and does not include representation from across all services within the Council. Increasing the size of the sample will help to identify any errors and allow mitigating action to be taken and learning to take place.

Official invoices are sent by the Council, generated using the eFinancials system and printed on site by the departments. Monthly spot checks are undertaken in order to identify any issues surrounding the timeliness of raising invoices, however as detailed above only four invoices per month are examined.

Appendix B: Audit Opinion and Themes

Assurance



No cash payments are taken by the Council which provides assurance that departments will be able to segregate the collection of income and issuing of invoices. Income received is allocated on the eFinancials system against the relevant invoice.

Credit notes are raised by the individual departments and approved by the respective Budget Holder. They are then reviewed by the Accounts Receivable Team to ensure there has been appropriate, independent approval before being processed onto the eFinancials system. Review of a sample of credit notes raised in the financial year to date confirmed, in all but one case, that each had been approved in line with delegated limits. In the one exception case, an annual invoice had been raised instead of a quarterly one (as had been agreed with the customer) and therefore the Accounts Receivable Team did not seek higher authority. This was deemed acceptable, as it was a correction rather than an actual credit note for the customer to use in the future.

A random sample of credit notes (5% of the total) is also reviewed by the Team Leaders on a quarterly basis with the results recorded in a spreadsheet.

The Council use the eFinancials system for processing invoices. Access to the system is restricted to appropriate members of staff with user permissions based on business needs. Annual reviews of users are undertaken by the Financial Services Manager in order to identify any inappropriate users.

VAT

VAT is detailed on invoices sent out to customers and is therefore the responsibility of the individual departments. A "Debtors VAT guidance" document is available on the intranet, alternatively officers can seek advice from Financial Services. The Accounts Receivable Team sample check invoices on a monthly basis, which includes a check to verify if the correct VAT has been applied. However, the sample size tested is small (consisting of just four invoices per month) therefore increasing the risk that issues may not be detected.

Recovery Action and Write Offs

Once a debt exceeds 14 days, a reminder letter is generated on the eFinancials system and sent out to the customer (distributed on the 16th of each month). A second letter is then sent if payment has not been received by the 7th of the following month. This process is automated by the eFinancials system.

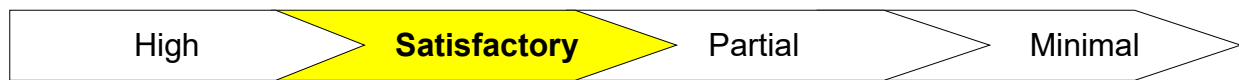
At this point, an 'Aged Debt' report is run to identify outstanding debt (including any invoices in dispute), which is passed to the Council's debt collection agent (Rossendales) if it is valued over £100. If it is lower than this then it is considered for write off.

Review of 20 outstanding debts selected from the aged debtors reports identified:

- 19 cases where the correct recovery action had been followed
- one case where a failed Direct Debit transaction had not been identified from the failed Direct Debit report received from the bank and therefore recovery action had not been taken.

Appendix B: Audit Opinion and Themes

Assurance



Write offs are compiled by the Accounts Receivable Team before being passed to the Revenues and Benefits Transformation Manager and Financial Services Manager for authorisation. Only one batch of write offs has been processed since April 2019, and it was confirmed that all write offs detailed on the eFinancials system were included within this batch which had been approved. It was also noted that the schedule of write offs includes the reason for each individual debt being written off, all of which aligned to the Policy and were supported by appropriate evidence.

Management Information

Reconciliations between the Accounts Receivable system and the general ledger are undertaken monthly. They are completed and then signed off by a different member of staff to ensure they have been completed correctly. Review of the folder containing the reconciliations confirmed that they had been completed in a timely manner for all months in the financial year to date.

A quarterly report is provided to the Executive Management Team detailing collection rates, which includes sundry debtors. We were able to confirm that the previous three quarterly reports had been made and that year-end figures for 2018/19 were above the target of 97.75%, at 97.86%.

Number of actions agreed: 4

Accounts Payable 19-103

Objective

To assess whether the key controls in the Accounts Payable system effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing Castle Point Borough Council's (the Council) statement of accounts.

Themes

Policies and Procedures

A number of procedural guidance documents are in place at the Council. These are stored on the shared drive available to all staff within the Finance Team. The guidance includes information on processes for batch checking, Construction Industry Scheme (CIS), disputed invoices etc. Examination of the guidance identified that they have not been reviewed for a number of years and still contain minor errors, such as references to cheque payments, which are no longer used by the Council. This increases the risk that staff may adopt inefficient / incorrect working practices.

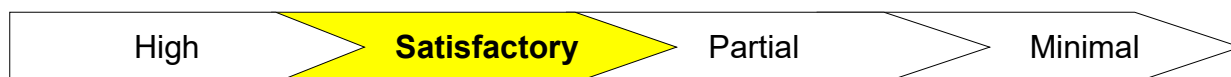
VAT

VAT is automatically calculated by the eFinancials system. The Finance Assistant also performs a manual check of all invoices to ensure the correct details have been entered onto the system, reducing the risk that VAT is incorrectly accounted for.

New Suppliers / Amendments to Suppliers

Appendix B: Audit Opinion and Themes

Assurance



The Financial Services Manager completes regular reviews of system access rights in order to reduce the risk that inappropriate access to the system could be obtained.

Access to the eFinancials system is restricted appropriately, with only members of the Financial Services Team having access rights to amend / add supplier details.

Supplier amendments are requested via a standard form, or detected from the invoices received, which would then be verified with the supplier. Review of a sample of amendments confirmed that the cases processed were consistently supported by appropriate evidence.

The Financial Services Manager completes periodic reviews of a sample of amendments made to supplier details to ensure;

- any amendments have been made correctly
- supporting evidence is available to support the change
- there has been more than one person involved in the amendment.

However, examination of these identified that the sample checking had not been completed monthly but instead periodically (twice) since November 2018 (although the entire period was covered), meaning any incorrect amendments may not have been identified in a timely manner.

New Suppliers are requested via the completion of a standard form by the service area, before being actioned onto the system by the Accountancy Officer ensuring that segregation of duties are maintained between the requestor and actioning officer.

Periodic reviews of suppliers are undertaken in order to remove any which have not been used in six years or more, therefore helping to mitigate the risk that incorrect suppliers are paid.

Processing Invoices

The eFinancials system automatically detects any duplicate invoices via the invoice number and alerts the user to this, therefore reducing the risk that duplicate invoices may be processed.

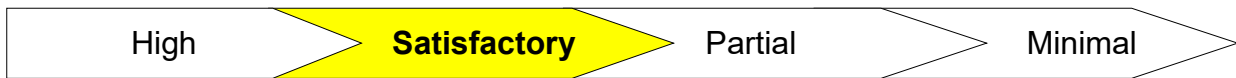
Payments may be made where a Purchase Order (PO) is raised and authorised, and a Goods Received Note (GRN) recorded. Where a PO is raised, segregation of duties are maintained via the system between the requestor and the authoriser.

Review of 30 payments made since April 2019 identified no exceptions and in all 30 cases, the payment had been approved within delegated limits and matched to the invoices received. For those without PO's, orders were paid only once an authorised invoice was loaded into the system.

Payments are made via BACS with a weekly payment run processed. A payment listing report is produced from eFinancials by the Finance Assistant and then checked to the BACS submission for accuracy and completeness by a senior member of the Finance Team. Review of 10 BACS payment runs confirmed they had each been reviewed and matched to source documentation.

Appendix B: Audit Opinion and Themes

Assurance



Authorisation spreadsheets are in place for each directorate at the Council. They contain the details of the delegated limits within that directorate. No evidence that they had been reviewed within the previous twelve months could be provided, increasing the risk that delegated limits are not appropriate.

The Finance Assistant runs a regular report to identify invoices older than 30 days in order to monitor any in dispute. This also allows the Finance Assistant to identify any outstanding payments to be made and take appropriate action.

Management Information

Monthly reconciliations are undertaken by the Finance Assistant of the Accounts Payable system to the General Ledger. Examination of the records confirmed that all reconciliations in the year to date had been completed in a timely manner (the last working day of the month) and reviewed and signed off by the Financial Services Manager within two weeks of completion. The only exception was April 2019 due to year-end processes for accounts preparation, which was signed off in May 2019.

Payment on time statistics are also monitored and reported to the Financial Services Manager on a quarterly basis. Examination of the previous three sets of figures confirmed that compliance with the 15 day (for local suppliers) and 30 day targets was not below the 97% target for each period.

Number of actions agreed: 3

Appendix C: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	67%
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	100%
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	100%
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	83%
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	83%
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	83%
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	50%
8	At the end of the audit, did you understand the rationale for the overall opinion given?	100%
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100%

AUDIT COMMITTEE**16th January 2020****Subject: Treasury Management and Investment Strategies 2020/21**

1. Purpose of Report

The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.

2. Links to Council's priorities and objectives

The scrutiny and approval of the Council's Treasury Management and Investment Strategy is linked to the Council's priority of a Commercial and Democratically Accountable Council through sound financial management. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

3. Recommendation

That following scrutiny, the Treasury Management and Investment Strategies for 2020/21 are approved for onward submission to Council on 19th February 2020 as sections 12 and 13 of the overall Policy Framework and Budget Setting Report.

Resolution required.

4. Treasury Management and Investment Strategies 2020/21

The strategies for 2020/21 are attached to this report.

5. Corporate Implications**(a) Legal implications**

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

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

The Council continues to comply with all the relevant statutory and regulatory requirements.

(b) Financial implications

Setting Treasury Management and Investment Strategies are cornerstones for effective treasury management and essential for sound management of the Council's finances. They are an integral part of the Budget Framework. All implications arising from this strategy have been incorporated into the budget due to be approved by Council in February 2020.

(c) Human resource and equality implications

There are no new implications.

(d) Timescale for implementation and risk factors

The Code of Practice for Treasury Management states that the Council must receive a report on annual strategy and plan in advance of the year. The Council complies with this by submitting the strategies to the annual Council budget-setting meeting in February. Failure to do this effectively or in a timely manner, could adversely affect the security of investments and increase reputational risk for the Council.

Report Author: Robert Greenfield, Accountant

Treasury Management Strategy

Definition of Treasury Management

- 1 Treasury management is:
“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP's) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council's policy statement and TMP's and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Treasury Management Strategy for 2020/21

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Asset Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

Balanced budget requirement

- 4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

Brexit, economic uncertainty and interest rates

- 5 It will be some time until it is clear what the country's trading arrangements will be with the EU and rest of the world post Brexit, and consequently it is likely there will be prolonged economic uncertainty.
- 6 The Bank of England base rate has been at **0.75%** throughout 2019/20. Growth in the UK economy is expected to remain low and Link expects the base rate to rise to **1.00%** in 2021 and **1.25%** in March 2022. It is expected that the 50-year Public Works Loan Board (PWLB) long-term rate for maturity loans during 2020/21 will range between **3.20%** and **3.50%**.
- 7 The Council adheres to strict investment criteria. It is anticipated that investments will have an overall average maturity of approximately 270 days. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be

restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.

Current debt position and requirements for 2020/21

- 8 A summary of external debt that is expected to be outstanding at 31 March 2020 is as follows:

Table 12.1 External debt outstanding	
Source	Total at 31/03/20 £000's
Public Works Loan Board – General Fund	14,250
Public Works Loan Board – Housing Revenue Account	36,451
Total	50,701

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **1.08%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are low, premature repayment of all loans would incur a huge premium in excess of ten million pounds.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2020 is not currently anticipated to trigger a requirement for new borrowing in 2020/21. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is the difference between the Capital Financing Requirement (CFR) and the level of external borrowing. At the end of 2020/21 this is expected to be **£5.4m**, a significant increase from previous years. This position is known as "under-borrowed". Most of this amount, **£4.5m** relates to the purchase of the Knightswick Shopping Centre and associated public realm works. Total capital expenditure on this project will be **£13.5m** of which **£9.0m** was funded externally by a PWLB 10-year, equal instalment loan, fixed at a preferential "certainty rate" of **1.08%**. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out loans, borrowing **£4.5m** internally is an efficient use of resources that also lowers the overall cost of funding for the project to less than **1%**. If external debt exceeded the CFR then the Council would be "over-borrowed". The position will fluctuate from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.
- Borrowing Strategy**
- 12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the impact of changes in Central Government policies including imposed 4-year rent reductions, as detailed within the separate HRA budget setting report.
- 15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently 0.20% below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to access the preferential rate should the need arise. Although there are no current plans to borrow, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund **£14.25m** debt is quite long at 19 years. **£0.90m** matures every year for the next 10 years, currently with no requirement to refinance. **£5.25m** of the debt portfolio does not mature before 2052. Therefore, there is little refinancing risk for the General Fund.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1.0m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, the borrowing cap would be removed, so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.
- Borrowing in advance of need**
- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:
- It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three-year planning period; and
 - The Council would not look to borrow more than 18 months in advance of need.

- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

Treasury management indicators

- 21 The Council is required to calculate several Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

Borrowing maturity structure

- 22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:

Table 12.2 Maturity structure of fixed rate borrowing				
Maturity	General Fund		Housing Revenue Account	
	Upper limit	Lower limit	Upper limit	Lower limit
	%	%	%	%
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

Borrowing – limits of fixed and variable rate exposure

- 23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows:-

Table 12.3 Upper limits of fixed and variable exposures						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
Upper limit – fixed rates	56	56	55	47	47	46
Upper limit – variable rates	(22)	(18)	(12)	(13)	(12)	(7)

Borrowing - interest rate sensitivity

- 24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios:-
- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
 - a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

Debt management objectives

25 A summary of the Council's debt management objectives for 2020/21 is therefore as follows:-

- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
- to borrow at the best interest rates achievable in relation to estimated future rates;
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

Investment Strategy

Investment guidance

- 1 This Council has regard to the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
 - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
 - Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

- 3 Under the Guidance investments made by local authorities are classified into two main categories:
 - Investments held for treasury management purposes.
 - Other investments.

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2020/21 this amount will be **£56k**.

Table 13.1 General Fund investment income						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's	£000's	£000's
Forecast investment income	196	200	172	181	170	137

- 4 The Guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

Financial Investments

- 5 Under the Guidance Financial Investments fall in to three categories:
 - Specified investments - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year.
 - Loans – for example to local enterprises, charities etc. The Council has none
 - Non-specified investments – all others, may be less secure.

Specified Investment instruments identified for use in the financial year are listed in table 13.2 on the following page. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, and these are listed in tables 13.3 and 13.4.

Non-financial Investments

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the

Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

Liquidity

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2020/21 to range between **£23m** and **£36m**.

Risk Assessment and Risk Appetite

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
- a very high average credit weighting for the portfolio, typically AA
 - a diversified portfolio
 - weighted average maturity approximately 250 days
 - strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£6m**.
 - Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

Credit ratings

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 13.2 to 13.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment. If there were to be a "no deal" Brexit, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA. Most funds are invested in institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

Monitoring of credit ratings

- 10 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset Services, also alert the Council to changes in ratings as they occur.
- 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.
 - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

Amendment to the 2020/21 Investment Strategy to add three new investments to the approved list of investment counterparties

- 11 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other Councils. During 2019/20 the Treasury Management Strategy was amended to allow investing for longer periods than the current 364-day limit with banks and other local authorities, to increase the return on investments without

significantly compromising security. The Strategic Director (Resources) now recommends adding three further types of non-specified investment to the approved list of counterparties from 2020/21, as detailed below. Non-specified investments may not have the high credit quality of specified investments.

- 12 This is to achieve more diversification and yield with new investments, which are used regularly by other councils, whilst maintaining reasonable levels of security. It is anticipated the new investments will provide approximately **£100k** of additional investment income per annum. Some non-specified investments are more complex instruments, requiring greater consideration and due diligence by officers and members. Therefore, officers will consult with Link Asset Services and may engage the adviser to provide a Multi-Asset Fund Selection Service, before investing in these new asset classes, to ensure a full appraisal is made of all products and any associated risks.

13 **Property funds**

Property funds are similar to other collective investment funds in many ways. Consumers make lump-sum investments, which are pooled together and used to purchase a range of assets. Some property funds invest directly in commercial property - they buy actual properties including offices, shops, factories and warehouses. Other funds invest indirectly - meaning that instead of buying properties, they buy shares in property companies or other property funds. Both these types of fund are usually unit-linked. This means that they are divided into units, with each unit representing a share of the underlying investment pool. Consumers buy a certain number of units, and the unit price will change over time to reflect the value of the underlying assets. The funds are sold as general investment products and as part of pension plans. So, they are usually managed by pension providers, investment companies or life assurance companies. However, property funds can differ from other collective investment funds because there can be lengthy delays between a consumer asking to withdraw money from a property fund and that money being paid out; and the pricing of the units can be quite difficult to understand.

14 **Bond funds**

A bond fund is a fund invested primarily in bonds and other debt instruments. The exact type of debt the fund invests in will depend on its focus, but investments may include government, corporate, municipal and convertible bonds, in addition to other debt securities like mortgage-backed securities.

A bond fund is simply a mutual fund that invests solely in bonds. For many investors, a bond fund is a more efficient way of investing in bonds than buying individual bond securities. Unlike individual bond securities, bond funds do not have a maturity date for the repayment of principal, therefore, the principal amount invested may fluctuate from time to time. In addition, investors indirectly participate in the interest paid by the underlying bond securities held in the mutual fund. Interest payments reflect the mix of all the different bonds in the fund, which means that the interest income distribution will vary monthly. An investor who invests in a bond fund is putting his money into a pool managed by a portfolio manager. Typically, a bond fund manager buys and sells according to market conditions and rarely holds bonds until maturity.

Many bond funds comprise a certain type of bond, such as corporate or government bonds, and are further defined by time period to maturity, such as short-term, intermediate-term, and long-term.

Due to the inverse relationship between interest rates and bond prices, a bond due to mature in the long-term has greater interest rate risk than a short-term bond. Therefore, the net asset value of bond funds with longer term maturities will be impacted greatly by changes in interest rates. This, in turn, will affect how much interest income the fund can distribute to its participants monthly.

15 **Multi-asset funds**

These funds are pooled investment vehicles investing in a mixture of assets, such as cash, bonds, property, equity and various other income producing products. Most funds will include non-sterling investments, hedged back to sterling. Risk is diversified via the spread of investments, with 'risk-return efficiency' above average. They can be sold on a daily basis, with settlement typically after 3 days. Funds hold a variety of extremely liquid assets to meet investor liquidity requirements and dividend payments.

Returns can be variable, although diversity in assets aims to give stability to income payments and managers typically aim for 4-6% in yield, but in the current low interest rate environment it may be lower. Annual management fees are typically 0.75% to 1.50%. Unrated credit, derivatives and other complex instruments are regularly used. They are relatively new products, most funds are 5 to 10 years old.

Table 13.2 Specified Investments for the Financial Year 2020/21

Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Debt Management Agency Deposit Facility (DMADF) (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
Treasury Bills issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
Term Deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
Term Deposits with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
Current accounts, notice accounts or term deposits with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Certificates of Deposit issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Covered bonds (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Reverse repurchase agreements "repos" (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

Table 13.3 - Non-specified Investments for the financial year 2020/21**(Note – added in 2019/20)**

Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £4m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
Current accounts, notice accounts or term deposits with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years

Table 13.4 - Non-specified Investments for the financial year 2020/21**(Note – new additions from 2020/21)**

Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Property Funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Bond funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Multi-Asset funds	The lesser of £4m or 25% of total investments	Unrated	n/a

- All Specified Investments listed above must be sterling-denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure.

Country, group and sector limits

- 16 The Council selects counterparties according to credit quality as well as the additional information in paragraph 19 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 21.

Money Market Funds

- 17 As has been the practice for a number of years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as £1) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the £1 invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

Markets in Financial Instruments Directive (MiFID)

- 18 From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

Use of additional information other than credit ratings

- 19 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Bail-in legislation

- 20 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all of their deposits are converted into equity which could be worth less than the original investment. Consequently, the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

Internal stricter guidance

- 21 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, taking into account information and advice supplied by Link Asset Services, the Council's treasury adviser. Changes to the internal guidance are approved by the Strategic Director (Resources).

Use of derivative instruments

- 22 Local authorities have the ability to use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be

amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

Investments defined as capital expenditure

23 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.

24 Investments in Money Market Funds are not treated as capital expenditure.

25 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

Provisions for credit-related losses

26 If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

Investment strategy to be followed in-house

27 The Council's in-house managed funds are mainly cash-flow derived. At least approximately 80% of the Council's funds will be invested for periods of less than 365 days. There are core funds of approximately £5m that it is very unlikely will be required for cash flow purposes for another 2 to 5 years. The recent changes to the treasury strategy will allow some or all of these funds to be invested longer-term, at higher rates, to provide additional investment income for the Council.

The Council's banking arrangements

28 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31st March 2020 and officers are reviewing a new tariff from Lloyds and considering all feasible alternatives to ensure the Council obtains value for money, in accordance with the Council's Contract Procedure Rules.

Risk benchmarking

29 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

30 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

31 **Security** – The Council's maximum-security risk benchmark for the current portfolio is:

- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.

32 **Liquidity** – In respect of this area the Council seeks to maintain:

- Bank overdraft - **£200,000**. Higher overdraft facilities are available on request. This will be reviewed for the new banking contract due to start in April 2020
- Liquid short-term deposits of at least **£1.0m** available with a day's notice

- Weighted Average Life benchmark is expected to be about 270 days, with a maximum of one year

33 **Yield** – Local measures of yield benchmarks are:

- Investments – returns above the 7-day LIBID rate.

Treasury management adviser

34 Link Asset Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.

35 Whilst Link Asset Services provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

Member and officer training and experience

36 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link Asset Services both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and many years' experience in local authority treasury across the team.

Investment activity reporting and publication

37 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

Code Update

38 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.

39 The 2017 edition also included:

- Three key principles of Treasury Management, which are unchanged from the previous publication.
- Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
- Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

Changes in accounting standards

- 40 Implemented in 2018/19 IFRS9 on Financial Instruments, specified how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting set out how it applies to Councils. Officers consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they were not material to the Financial Statements, and only affected presentation and disclosure of the financial instruments and liabilities.