

Guildhall Gainsborough
Lincolnshire DN21 2NA
Tel: 01427 676676 Fax: 01427 675170

AGENDA

This meeting will be recorded and the video archive published on our website

Governance and Audit Committee
Tuesday, 17th January, 2017 at 2pm
Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA

Members: Councillor Giles McNeill (Chairman)
Councillor Jackie Brockway (Vice-Chairman)
Councillor Sheila Bibb
Councillor David Bond
Councillor John McNeill
Councillor Mrs Angela White
Alison Adams
Peter Walton
Andrew Morriss

1. **Apologies for Absence**
2. **Membership**
3. **Public Participation**
4. **Minutes of Previous Meeting** (PAGES 1 - 10)
To confirm as a correct record the Minutes of the Previous Meeting held on 8 November 2016.
5. **Declarations of Interest**
Members may make any declarations of interest at this point but may also make them at any point during the meeting.
6. **Matters Arising Schedule** (PAGES 11 - 14)
Setting out current position of previously agreed actions as at 9 January 2017.

Agendas, Reports and Minutes will be provided upon request in the following formats:

Large Clear Print: Braille: Audio: Native Language

7. Reports for Consideration

- a) Certification of Grants and Claims (PAGES 15 - 20)
- b) Internal Audit Monitoring Report Q3 (PAGES 21 - 40)
- c) Treasury Management Draft Strategy (PAGES 41 - 82)
- d) Accounting Matters 2016/17 Closedown (PAGES 83 - 112)
- e) AGS 15/16 Monitoring Report Q2 (PAGES 113 - 116)
- f) Revised Members Code of Conduct for Consultation (PAGES 117 - 168)
- g) Member Champions (PAGES 169 - 172)

8. Committee Work Plan (PAGES 173 - 174)

9. Exclusion of Public and Press

To resolve that under Section 100 (A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

10. Exempt Report/s

- a) Quickline Business Plan / Payments - Monitoring Report Period 3

M Gill
Chief Executive
The Guildhall
Gainsborough

Monday, 9 January 2017

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA on 8 November 2016 commencing at 6.30 pm.

Present: Councillor Giles McNeill (Chairman)
Councillor Jackie Brockway (Vice-Chairman)

Councillor Sheila Bibb
Councillor John McNeill
Councillor Mrs Angela White
Alison Adams
Peter Walton
Andrew Morriss

In Attendance:
Ian Knowles Director of Resources and S151 Officer
James O'Shaughnessy Team Manager BI and Corporate Governance
Alan Robinson SL - Democratic and Business Support
Mark Sturgess Chief Operating Officer
Cliff Dean ICT Manager
Katie Coughlan Governance and Civic Officer

Also In Attendance
John Cornett KPMG – External Auditors
Lucy Pledge Internal Audit – Lincolnshire County Council
Matthew Waller Internal Audit – Lincolnshire County Council

Also Present David Lomas – Chairman - Remuneration Panel

Apologies: Councillor David Bond

Membership: No substitutes were appointed for the meeting

39 PUBLIC PARTICIPATION

There was no public participation

40 MINUTES OF PREVIOUS MEETING

RESOLVED that the Minutes of the meeting of the Governance and Audit Committee held on 15 September 2016 be approved and signed as a correct record

41 DECLARATIONS OF INTEREST

There were no declarations of interest made at this stage of the meeting.

42 MATTERS ARISING SCHEDULE

Members gave consideration to the Matters Arising Schedule which set out the current position of all previously agreed actions as at 31 October 2016.

With regard to the green action entitled “number of fixed term contracts” the Director of Resources advised that there were currently 26 such contracts in operation across the workforce.

RESOLVED that progress on the Matters Arising Schedule as set out in report GA. 16/17 be received and noted.

43 DISCUSSION ITEM - MEMBERS ALLOWANCES - TO INFORM THE WORK OF THE REMUNERATION PANEL PRIOR TO THEM MAKING RECOMMENDATIONS TO FULL COUNCIL

The Chairman welcomed Mr David Lomas, Chairman of the Remuneration Panel, to the meeting.

Mr Lomas addressed the Committee, outlining the role of the Panel. He outlined in detail the impact and effect the financial crisis had had on the Panel’s work, and how it was a prevalent and relevant consideration, the Panel had to take into account. Members were provided with details of the work the Panel, supported by Officers, undertook in reaching its recommendations, this included, comparing allowances paid by other similar local authorities; taking into account the increase offered to staff from government, as parity and public opinion were also relevant considerations; and consultation with Elected Members.

The Chairman advised that previously Council had expressed concern that there had been no increase offered to the position of Leader of the Opposition. However, he was of the view that the duties connected to this post had not increased and therefore this was a fair reflection.

In response to the Committee’s comments, Officers advised as to why some committees had two vice chairman. This was an historic position, created with the introduction of the new constitution, which had seen the remit of some committees increase significantly. This was not a matter for decision by the Remuneration Panel. They set the allowances paid to positions, as opposed to the number of remunerated positions.

In responses to comments, Members were advised that historically Mr Lomas’s Panel had made recommendations to this Committee on the Members’ Allowance scheme, prior to it having been submitted to Full Council for approval. There had been a general consensus that this process could have been viewed as impeding the impartiality intended and hence the Committee were now asked to express views to inform the work of the Panel in advance

of recommendations being formed and submitted directly to Council.

The value of the process was questioned but having learned that only very few Councillors engaged through the other routes made available, the Committee were of the view that the approach did add value and offered opportunity to comment in advance of formal recommendations being made.

At the request of new Members the increases approved in recent years were summarised to the Committee. It was noted that for a considerable number of years no increase had been approved, in line with the freeze on Officer pay; more recently increases of 1% in-line with those seen by Officers had been applied.

There was general consensus that Ward Member duties had increased.

The Chairman indicated that he had previously enquired with the IT department as to whether e-mail communications could be tracked, in order that ward councillor duties could be better ascertained in the future.

Prudency by the Panel was welcomed.

The Chairman and Committee thanked Mr Lomas for his attendance.

44 ANNUAL AUDIT LETTER

Consideration was given to a report from the Authority's Auditor KPMG, which presented the Annual Audit Letter to the Committee. The Headlines, as set out on page 2 of the report, were outlined to Members and included that the Authority had: -

- an unqualified audit opinion on the 2015/16 Statement of Accounts;
- an unqualified value for money (VFM) 2015/16 conclusion;
- had good processes in place for the production of its accounts;
- had received certified completion of the Audit; and
- had an Annual Governance Statement consistent with the External Auditor's understanding of the Authority.

In concluding, the Audit Fee for 2015/16 was highlighted.

Since completion of the report there were two further matters the external auditor wished to bring to the attention of the Committee, namely that, as previously advised, the timeline for the closure of accounts nationally would change in the next two years. An early closure workshop was being held with Staff and Elected Members in early December 2016, in order that all could better understand the implications and key milestones. Secondly, West Lindsey's Audit Manager, Adrian Benselin, would be retiring from his position. Once a new Audit Manager had been identified he/she would be introduced to the Officer core and the Committee.

The Committee wished Mr Benselin all the best for the future and for all his hard work on behalf of West Lindsey. The Chairman requested that a letter of thanks be sent of his behalf.

In responding to questions, it was confirmed that the current doubt over the devolution deal, would have no impact on the Auditor's conclusions.

It was noted that a technical update had been circulated separately to all Members of the Committee. Members were asked to raise any issues or comments they had regarding the document's content, to either KPMG direct, or with the Chairman, and these would be discussed further at his next briefing meeting in January.

RESOLVED that the information contained within report GA.29 16/17 be received, noted and accepted.

45 INTERNAL AUDIT PLAN - PERIOD 2 MONITORING REPORT

Consideration was given to a report which gave Members an update of progress, by the Audit partner, against the 2016/17 annual programmes agreed by the Audit Committee in March 2016.

The report further provided details of the audit work undertaken during the period; the current position with agreed management actions in respect of previously issued reports; and details of other audit activity relevant to the Committee.

The report advised on two audits having been completed during the period; The outcomes of each audit were outlined to Members in detail and it was noted that the Team Manager – ICT was in attendance to answer any specific questions Members had on the outcome of the ICT incident Management Audit which had received low assurance.

The report further advised of the audits currently in progress and other significant audit work undertaken during the period and going forward.

Prior to opening the debate the Internal Auditor verbally updated the Committee on some items referred to in the written report, namely Key message 3, the management actions regarding the Traded Services Audit had now been agreed; and Key message 9, only 2 actions remained outstanding and neither of these were high priority.

Debate ensued and in response to Members' concerns regarding outstanding enforcement actions, Officers advised of the work being undertaken by Mr Bowery across all enforcement services. This work was due to conclude imminently and would address all outstanding actions.

The issue of Agile Working was raised and Members sought indication as to how output was monitored. Assurance was offered that the policies and procedures were audited to give assurance that employees working from home were subject to the same requirements as those in the office. All employees had regular 1-2-1s and were managed through personal workplans and objectives. The same management oversight tools were in place regardless of where the employee was based. There were also concerns regarding confidentiality arising from Agile Working. Again assurance was offered that regardless of where the employee "logged on" to the system, the same policies and procedures were enacted. All files accessed were accessed off the main server through the Council's systems, as if the

employee was located in the main office base. There were clear expectations laid down for all employees. It was noted that measures to ensure confidentiality were also required in open plan offices, and the use of shaded screen in the office was now becoming common place.

Mr Cliff Dean addressed the Committee regarding the ICT incident Management Audit, reaffirming the Management position as set out in the report. All new systems had been implemented and a follow up audit would be undertaken in 6 month's time.

Members received an update following the recent Choice Based Lettings Audit, discussed at their previous meeting. The Authority was not prepared to accept the current standard and would continue to challenge partners.

In response to Members' questions, Officers confirmed both the Service Transformation and Development Management Phase 1 Audits had been cancelled by management. The reasons being, with regard to Service Transformation, current delivery models were under review and therefore the audit would have been of no value. With regard to the latter, this had originally been postponed in order for a Peer Review to be undertaken in the first instance. This had resulted in an action plan being produced which was progressing well and therefore it was unlikely the Phase 1 Audit would now be undertaken as in house measures were delivering results. The Phase 2 Audit was likely to commence in the first Quarter of next year's plan.

It was noted that whilst a Plan was set for the year, there was no priority order within the Plan and it was often discharged taking into consideration team capacity, examples were cited.

The Internal Auditor confirmed completion of the Plan in its entirety was still likely, however, there was a pressure and this had been raised with Management. Further assurance was offered that the service was independent and not directed by Management.

RESOLVED that the contents of the report be received and noted

46 INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT

Internal Audit within the Public Sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS) - which had been in place since April 2013 (updated April 2016).

The Standards required an external quality assessment be undertaken at least once every 5 years as part of Internal Audit's Quality Assurance and Improvement Programme. Members gave consideration to a report which provided the Committee with information on the result of the external quality assessment.

The assessment was undertaken in September 2016 and included:

- Discussion with 34 people across the client base, including West Lindsey. This had involved Audit Committee Chair's, Chief Executives, Section 151 Officers and auditees.
- Review of a wide range of documentary evidence and audit files, including the Internal Audit Charter.

- Comparison with other Internal Audit Functions

Assurance Lincolnshire practice had been assessed against 56 fundamental principles and over 150 points of recommended practice.

The overall conclusion had been that there were no areas of non-compliance within the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

In response to the best practice question the Assessor had stated:-

"As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others".

Assurance Lincolnshire were really pleased with the outcome of the External Quality Assessment and prided themselves on being an experienced, competent and innovative provider which strived to maintain and develop its service by embedding quality in all elements of internal audit activity.

A copy of the External Quality Assessment report was provided to Members.

The Assessor had identified some recommendations for further development and improvement. Actions had been agreed and included in the Quality Improvement Plan. Two recommendations had been made:

- R1 Include details of resources in the strategy/audit plan.

More information on the team and level of staff resources deployed to deliver the plan.

- R2 Ensure that the planned ethical audit is undertaken.

Assurance Lincolnshire plan and undertake work to contribute to the development of clients governance arrangements. Updated good practice guidance on governance, including ethics, was published in April 2016. Assurance Lincolnshire work plans for 2016 and 2017 include assurance over conformance with this guidance and whether clients' governance arrangements are working effectively. We propose to include this work for West Lindsey in the 2016/17 plan.

A copy of Assurance Lincolnshire's Quality Assurance and Improvement Plan was provided to Members.

The Committee congratulated Audit Lincolnshire on their success.

RESOLVED that

- (a) the External Quality Assessment of Assurance Lincolnshire as detailed within the report and what it tells the Committee about the quality of the Internal Audit Service be noted, and;
- (b) the Committee are assured over the quality and effectiveness of the Council's Internal Audit Service provider – Assurance Lincolnshire.

47 TO VARY THE ORDER OF THE AGENDA

The Chairman indicated that with leave of the Committee, he intended to vary the order of the agenda in that he wished to take agenda item 7 (j) (Governance Options – Approval of Consultation) next before proceeding with business in the order as stated on the published agenda.

RESOLVED that the order of the agenda be varied as outlined above.

48 GOVERNANCE OPTIONS APPROVAL OF CONSULTATION

Members gave consideration to a report which sought agreement on the content of the proposed consultation to be undertaken with regard to Governance Models.

It was being proposed that consultation be carried out by:-

- Use of the Council's Website
- With West Lindsey Councillors
- The Citizens Panel
- Parish and Town Councils
- Political Groups

The period of Consultation would be in accordance with agreed protocols and would likely close on 31st December 2016 (tbc).

The draft questions for the Consultation were provided to Members within the report and debate ensued.

Some concern was expressed that ranking could skew results but it was acknowledged why this was required. The surveys value to a lay person was questioned.

In response to questions regarding promotion, Officers advised that use of social media and the Council's website would be used. Parish Councils were also being consulted and could advise their communities of the survey.

It was stressed that this was only an initial stage consultation and if a major change to governance was likely, much more in depth consultation would be required.

In response to Members comments, Officers undertook to plain English check the survey prior to its dispatch, however caution was expressed that the wording contained within the survey was that which had been previously agreed by Council.

RESOLVED that the content of the consultation on Governance Arrangements for West Lindsey District Council be approved, subject to it being plain English checked in the first instance.

49 AGS MONITORING REPORT - PERIOD 1

Consideration was given to a report which reviewed the progress made to-date against the Annual Governance Statement 2015/16 Action Plan.

In responding to Members comments, the AGS production process was outlined, including the process by which “issues” were identified.

It was suggested that an AGS refresher training session may be useful.

RESOLVED that Members are assured that the current position of the Annual Governance Statement Action Plan for 2015/16, will result in the completion of all relevant actions by July 2017.

50 SECTOR LED BODY FOR AUDIT APPOINTMENTS

At its meeting on 14 April 2016, the Committee had given consideration to a report which informed Members of the options available to the Authority for appointing a new External Auditor. That report had also asked Members to give consideration to being part of a national approach.

At that meeting Members had formally resolved to express an interest in joining with the LGA in a nationally led process for the appointment of External Auditors.

The national approach, through the LGA, had been agreed with the DCLG and the current contract management company Public Sector Audit Appointments (PSAA) were establishing a process to lead on behalf of the sector.

An invitation had been issued by PSAA for all eligible Authorities to make a firm commitment to the process and Members were provided with their prospectus.

It was noted Regulation 19 of the Local Audit (Appointing Person) Regulation 2015 required that the decision to opt in must be made by a meeting of the Full Council meeting as a whole.

On that basis Members were asked to consider the content of the report and if agreeable make a recommendation to Full Council that WLDC should participate in the national scheme for the appointment of External Auditors.

RESOLVED that it be **RECOMMENDED** to Full Council that West Lindsey District Council participate in the national scheme for the appointment of External Auditors.

51 STRATEGIC RISKS - 6 MONTH UPDATE

Consideration was given to a report which presented Members with the strategic risks identified as facing the Council as at 1 November 2016.

It was noted that the Strategic Risk Register had been rigorously discussed by the Management Team on 1 November resulting in more actions being identified. These would be detailed in the next update report to the Committee.

RESOLVED that having reviewed the strategic risks as presented they be noted

52 WORK PLAN

Members considered their work plan for the remaining meetings during the ensuing civic year.

It was noted that two items previously identified for submission to this meeting would now be circulated as briefing notes to the Committee, in the light that no decisions were required, these were: -

- Sample Decision Making
- Timeline for the early closure of accounts

A request had been received from the Chairman of the Challenge and Improvement Committee for this Committee to review the call-in procedure. Committee were asked to note that this would be undertaken as part of the annual review of the Constitution as would the review of the Member Champion role.

With regard to the latter Members requested that the item be re-instated for January 2017, to allow them time to debate the matter.

Members also requested ample time to discuss the contents of the revised Code.

RESOLVED that the work plan as at 31 October 2016 be noted, subject to the amendments detailed above.

53 EXCLUSION OF PUBLIC AND PRESS

RESOLVED that under Section 100 (A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

Note: The Committee took a 10 minute recess to allow Members to consider the information tabled (appendices to the report) and the meeting recommenced at 8.55 pm.

Note: Peter Walton and Alison Adams left the meeting during the adjournment.

54 QUICKLINE BUSINESS PLAN / PAYMENTS - MONITORING REPORT PERIOD 2

Members received a report for assurance purposes and to give the Committee confidence that Quickline were able to meet the conditions of the loan.

In presenting the report Officers indicated at present the arrangement was in line with expectations and capital repayments continued to be made.

Members also received information on factors which had been affecting sales and cashflow performance.

Some Members expressed concern regarding the data in Appendix B and what they believed it indicated.

Members did pose a question around the cost of sales and Officers undertook to discuss this with Quickline and feedback to Members outside of the meeting.

Officers again re-iterated that whilst there were a few areas of concern, no action was considered necessary, as all payments to date had been met and this was the Authority's primary concern

RESOLVED that the monitoring information as presented be accepted and the Committee be assured.

The meeting concluded at 9.17 pm.

Chairman

Governance & Audit Committee Matters Arising Schedule

Purpose:

To consider progress on the matters arising from previous Governance & Audit Committee meetings.

Recommendation: That members note progress on the matters arising and request corrective action if necessary.

Matters arising Schedule

| Active/Closed | Active | | | | |
|---------------|---------------------------------------|---|--|----------|-------------------|
| Meeting | Governance and Audit Committee | | | | |
| Status | Title | Action Required | Comments | Due Date | Allocated To |
| Black | | | | | |
| | Choice Based Lettings | (i) Officers continue to maintain formal communications with ACIS Group Ltd; (ii) Officers continue to provide operational and strategic leadership to the wider partnership; (iii) assurance be sought on the new ICT system for Choice Based Lettings; and (iv) complete the partnership agreement between ACIS and WLDC | Choice Based Lettings has now been identified as an issue in the approved AGS, therefore all updates on progress in this area will be available through that reporting mechanism. | 31/12/16 | Michelle Howard |
| | number of fixed term contracts | Extract from mins 15/9/16 Members requested details of the number of fixed term contracts currently in existence across the Council. The Director of Resources undertook to provide this figure outside of the meeting. | Please can you feedback through this Matters arising the number of such contracts. figure was provided at mtg on 8 November as 26 | 06/11/16 | Tracey Bircumshaw |

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|--|--|--|---|----------|----------------|
| | thank you letter | extract from mins of mtg 8/11/16 The Committee wished Mr Benselin all the best for the future and for all his hard work on behalf of West Lindsey. The Chairman requested that a letter of thanks be sent of his behalf. | letter sent 11/11 | 11/11/16 | Katie Coughlan |
| | technical update queries | Extract from mins of mtg 8/11/16 Members were asked to raise any issues or comments they had regarding the document's content, to either KPMG direct, or with the Chairman, and these would be discussed further at his next briefing meeting in January. | item added to January briefing agenda . no comments or queries were received | 28/12/16 | Katie Coughlan |
| | governance options consultation | extract from mins of mtg 8/11/16 RESOLVED that the content of the consultation on Governance Arrangements for West Lindsey District Council be approved, subject to it being plain English checked in the first instance. | Document plain English checked. and circulated to all parties as stated in report. Consultation close date will be later than expected as it has been tied in with the general citizen's panel survey. - Verbal update to chairs brief. chairs briefing advised that the project remains on target and the working group will be meeting again in February to look at the consultation responses | 31/01/17 | Alan Robinson |
| | external audit appointment rec to council | extract from mins of mtg 8/11/16 RESOLVED that it be RECOMMENDED to Full Council that West Lindsey District Council participate in the national scheme for the appointment of External Auditors. | recommendation submitted and accepted by Council 14 November 2016 | 14/11/16 | Ian Knowles |

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|--------------------|-------------------------------|--|---|----------|--------------------------------------|
| | briefing notes | extract from mins of mtg 8/11/16 It was noted that two items previously identified for submission to this meeting would now be circulated as briefing notes to the Committee, in the light that no decisions were required, these were: - • Sample Decision Making • Timeline for the early closure of accounts | Sample decision making briefing note circulated. Closure of accounts timeline, is now contained within a report on the January agenda and therefore no briefing note now required. | 30/11/16 | Ian Knowles |
| | work plan amendment | extract from mins of mtg 8/11/16 With regard to the latter Members requested that the item be re-instated for January 2017, to allow them time to debate the matter. (Member Champs) | item has been re-instated on f plan - kjc | 30/11/16 | Alan Robinson |
| | quickline query | Extract from mins of mtg: - Members did pose a question around the cost of sales and Officers undertook to discuss this with Quickline and feedback to Members outside of the meeting. | This information has been provided to the Member who requested it | 17/01/17 | Ian Knowles |
| Green | | | | | |
| | ags refresher training | Extract from mins of mtg 8/11/16 It was suggested that an AGS refresher training session may be useful. | To be raised at chairs brief initially - added to jan agenda . discussion held, training will be arranged in May/June 2017 (following annual council and re appointment of cttees) and will include training on the wider role of the cttee also | 31/05/17 | James O'Shaughnessy / Katie Coughlan |
| Grand Total | | | | | |

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| GA.40 16/17 |
| Governance and Audit Committee |
| 17 January 2017 |

C

Subject: Certification of Claims and Returns Annual Report 2015/16

Report by:

Ian Knowles
Director of Resources (S151)

Contact Officer:

Tracey Bircumshaw
Financial Services Manager
01427 676560
Tracey.Bircumshaw@west-lindsey.gov.uk

Purpose / Summary:

The purpose of the report is to present the Annual Claims and Returns Report from our External Auditor KPMG.

RECOMMENDATION(S):

That Members accept the information contained within this report.

IMPLICATIONS

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| Legal: None arising from this report. |
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| Financial : FIN/124/17 As detailed within the Annual Grant Report |
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| Staffing : None arising from this report. |
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| Equality and Diversity including Human Rights : None arising from this report |
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| Risk Assessment : None arising from this report. |
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| Climate Related Risks and Opportunities : None arising from this report. |
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| Title and Location of any Background Papers used in the preparation of this report: |
| |

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

Executive Summary

The Certification of Grants and Returns Annual Report is attached at Appendix A, the headlines of which include:

- Housing Benefits was the only certified grant claim
- 7,464 claims were processed totalling £23,030,996
- The grant was certified on 28 November 2016

The report will be presented by KPMG LLP (UK).



KPMG LLP
Infrastructure, Government & Healthcare
St Nicholas House
Park Row
Nottingham NG1 6FQ
United Kingdom

Tel +44 (0) 116 256 6082
Fax +44 (0) 115 935 3500

Private & confidential

Mr I Knowles
Director of Resources
West Lindsey District Council
Guildhall
Marshall's Yard
Gainsborough
Lincolnshire, DN21 2NA.

Our ref

Date: 9 January 2017

Dear Ian

West Lindsey District Council – Certification of claims and returns – annual report 2015/16

Public Sector Audit Appointments (PSAA) requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £23,030,996, and we completed our work and certified the claim on 28 November 2016.

The Authority paid benefit to 7,464 claimants (non-HRA rent rebates 19; rent allowances 7,445).

Matters arising

Our certification work on the Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit cases to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and

- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Testing of the initial random sample of 20 rent allowance cases identified 1 case where benefit had been overpaid as a result of the Authority incorrectly treating non-dependents income and deductions. As a result of this error, we carried out a further test of 40 cases which identified no further errors. We reported the circumstances to DWP.

We have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

PSAA set an indicative fee for our certification work in 2015/16 of £3,696. Our actual fee was the same as the indicative fee.

For 2014/15, PSAA set an indicative fee for our certification work of £7,340. Our actual fee was £8,234. We set out the reasons for the additional fee in last year's annual report. The fees vary considerably from year to year due to the historic basis (a two year cycle related to actual time spent in 2011/12 and earlier years) that PSAA use to set the scale fees.

Yours sincerely



John Cornett
Engagement lead

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



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|------------------------------|
| GA.41 16/17 |
| Governance & Audit Committee |
| 17 January 2017 |

D

Subject: Internal Audit Quarter 3 Progress Report 2016/17

Report by:

Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)

Contact Officer:

Ian Knowles, Director of Resources
ian.knowles@west-lindsey.gov.uk

Purpose / Summary:

The report gives members an update of progress, by the Audit partner, against the 2016/17 annual programmes agreed by the Audit Committee in March 2016.

| | |
|---------------------------|---|
| RECOMMENDATION(S): | 1) Members consider the content of the report and identify any actions required. |
|---------------------------|---|

IMPLICATIONS

Legal: None directly arising from the report

Financial: fin ref 121/17 – None directly arising

Staffing: None.

Equality and Diversity including Human Rights:

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No



WLDC - Progress Report at 31st December 2016



| | |
|---|--------------|
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Contact Details:**Lucy Pledge CMIIA****Head of Audit & Risk Management*****For all your assurance needs*****County Offices, Newland, Lincoln, LN1 1YG****☐: 01522 553692 ☐ lucy.pledge@lincolnshire.gov.uk**

Introduction

1. The purpose of this report is to:
 - Advise of progress made with the 2016/17 Audit Plan
 - Provide details of the audit work undertaken since the last progress report.
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the West Lindsey Governance & Audit Committee role

Key Messages

2. Outstanding work against the 2015/16 audit plan is complete, with the final report for Traded Services being approved by GCLT and issued. Substantial assurance was agreed for this review and a summary is attached below.
3. Work continues to progress on the 2016/17 audit plan, with six audits in progress, one is at draft report stage and five are work in progress. Details are provided in the audit plan schedule table attached as appendix 2
4. The annual assurance mapping process is almost complete. We have documented the Councils critical services through discussion with the Councils managers. This information will help inform the 17/18 internal plan and provide management with a detailed record of assurance levels across the critical areas and services of the Council.
5. We have updated the 2016/17 plan and removed some audits from the plan. This has previously been discussed by the audit committee and details of the changes are included in the report. Details are attached in appendix 1.
6. 65% of the plan has been delivered, Appendix 2 providing details on the current status of the plan.
7. City of Lincoln Internal Audit completed a review of NNDR which provides assurance for the shared service arrangement between WLDC, NKDC and City. The service received a High assurance opinion and a summary of the report is attached.
8. Good progress has been made in implementing audit recommendations - there are currently 11 overdue actions, of which five are high priority. A further three findings have been updated with a revised date. Details on the outstanding actions can be found in Appendices 3 and 6.
9. **Forthcoming changes to the Public Sector Internal Audit Standards (PSIAS)**
The responsible internal audit standard setters for the public sector will be issuing a consultation on amendments to the PSIAS. The PSIAS incorporate the international standards established by the Global Institute of Internal Audit and the Institute has recently published new amendments to the standards to be effective from 1 January

2017 for their members.

While it is the intention to maintain the alignment of the PSIAS to the international standards, there will be no amendment until after the completion of the consultation. The consultation will propose some amendments, deletions and additions to the public sector requirements or interpretations that the PSIAS contain. It is intended that the updated PSIAS will take effect from 1 April 2017.

Internal Audit work completed at 31ST December 2016

10. The following audit work has been completed and final reports have been issued since the progress report presented to the September meeting of the audit committee:

| High Assurance | Substantial Assurance | Limited Assurance | Low Assurance | Consultancy |
|--|------------------------------|--------------------------|----------------------|--------------------|
| NNDR (Completed by City of Lincoln audit) | Traded Services | None | None | None |

Note: The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

Below are summaries of the audit reports issued. :

Traded Services – Substantial Assurance

The Council is developing its commercial activities through the introduction of a commercial plan seeking to generate £1m additional recurrent income by 2020. To achieve this, one of the key areas of activity includes developing the trading potential of the Council's services.

The purpose of this audit was to provide assurance on the Council's approach to development and management of traded services ventures.

We found that

- There is a Commercial Plan in place, for the period 2015 to 2020,
- This links to the Corporate Plan as part of the Entrepreneurial approach.
- The Commercial Plan has been approved and communicated to staff and members.

- Governance arrangements to review approve and monitor new traded services ventures have been determined and are documented in the Commercial Plan.
- There are clear terms of reference for the governing groups and meetings are generally well attended.
- There is a clear decision making process set out in the Commercial Plan.
- A project management approach and documentation are used to scope and develop traded services ventures.

There are some areas where the existing arrangements could be enhanced to ensure decision makers are fully informed, and projects approved for development can be progressed, for example:

- Fully considering the resource implications for developing a business case and managing a traded services project, and reflecting this in the project documentation;
- Specifying how the Council's current infrastructure and procedures will support the project and/or any changes or development required;
- Ensuring decision makers are provided with sufficient information to gain an understanding of the risks and rewards at an early stage of commercial project development;
- Development of performance management and financial information would provide the Commercial Board with assurance on how likely existing traded services are to be successful.

We also recommend that management consider whether the current governance and decision making process documented in the Commercial Plan is appropriate to all potential commercial ventures.

NNDR City of Lincoln Review – High Assurance

The service has responsibility for approximately 9225 commercial properties and continues to maintain a high in year collection rate (COLC 99.78% NKDC 99.46% West Lindsey 99.44%). £ 85,473, 078 was collected in NNDR income for 2015/16. Testing was undertaken across all three Councils in respect of Reliefs and Refunds.

We are pleased to be able to award High assurance based on our findings:-
Sound financial modelling is in place to monitor collection of NNDR income and identify any detrimental impact on the MTFS. Input is provided by key officers across the Council (Accountancy, Revenues & Benefits, Planning & Economic Development), Lincolnshire Finance Officers Group and external expertise from Analyse Local.

Collection of business rates is regularly monitored and remedial action is taken where a fall in the level of collection is identified. The 2015/16 Revenues & Benefits annual report highlighted that Lincoln, North Kesteven and West Lindsey were nationally the 3rd, 20th and 21st best in the country for Business Rates collection.

Claims for reliefs and discounts are processed promptly and where necessary sufficient evidence is provided by the claimant to support the application. Key dates are recorded on

Northgate and supplemented by notes to support the decisions taken by staff.

Sufficient evidence was recorded within Northgate to support the reason for each refund selected for testing. The Northgate system records a full audit trail of staff involved in the processing and authorisation of refunds.

We have not identified any areas for improvement or made any formal recommendations as part of this review.

Overdue Audit Recommendations

11. The process for tracking outstanding Internal Audit recommendations has been reviewed. We regularly run the tracker report and liaise with Business Improvement officers to ensure actions are accurately recorded and monitored. This helps to maintain oversight and momentum.

- There are eleven overdue management actions of which five are High priority, that are due for completion by the 31.12.2016. The five overdue high priority actions relate to the Choice Based Lettings review from 2015/16 and the ICT Infrastructure review from 2012/13. Both these audits were Limited assurance.

Appendix 3 provides details of all outstanding recommendations.

Performance Information

12. Our performance is measured against a range of indicators. We are pleased to report a good level of achievement against our targets – Appendix 5 shows our performance on key indicators as at 31ST December 2016.

Appendix 1 – Details of Changes to the Plan

Proposed Changes to the 2016/17 Audit Plan:

| Audit | Change and Reason for Change | Days | Assurance for Head of Internal Audit opinion (March 2016) |
|--|---|-----------------|---|
| Development Management Phase 1 Consultancy | Consultancy review no longer considered applicable as service has responded to peer review and internal improvement plans | 7 reduced to 0 | Assurance from management (1 st line of assurance) |
| Development Management Phase 2 Audit | Reschedule risk based audit in quarter 1 of 2017/18 to provide assurance on recent changes and improvements to systems and performance. | 8 reduced to 0 | Assurance from management (1 st line of assurance) |
| Transformation | Postponed. Under review with new governance and board systems being introduced | 10 reduced to 0 | Assurance from management (1 st line of assurance) |
| Contingency days | | 15 reduced to 0 | |

Appendix 2 – Audit Plan Schedule

| Area | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Current Status / Assurance Opinion |
|---|---|--------------------|-------------------|---------------------|------------------------------------|
| Development Management Services Consultancy Phase 1 | Phase 1 c/fwd from 15/16, consultancy to provide advice and support on the management of improvement plans to support the long term development of the service. | Q1 | Not started | | Cancelled see App 1 |
| Development Management Services Consultancy Phase 2 | Phase 2, provide assurance that improvement plans and changes have led to better outcomes and a sustainable Development Management Service. | Q4 | Not started | | Postponed see App 1. |
| Commercial Plan Phase 1 | Phase 1 consultancy to provide advice and support on the governance and management structures in place to support the Council's Commercial Plan objectives. | Q1 | June 2016 | September 2016 | Complete |
| Commercial Plan Phase 2 | Provide assurance on the management and delivery of the key Commercial Plan themes. Review how services and key projects are structured and align to the commercial plan deliverables and objectives. | Q4 | Not started | | Draft TOR with management |
| Key Policies and Procedures | Up to date policies and procedures play a key part in management assurance. We will confirm that key policies are up to date, understood and followed. | Q1 | June 2016 | September 2016 | Complete Substantial |

| Area | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Current Status / Assurance Opinion |
|---------------------------------------|--|--------------------|-------------------|---------------------|------------------------------------|
| Progress and Delivery | Provide assurance on the P&D reporting process. Reviewing accuracy and relevance of key performance measures used in reporting. | Q3 | September 2016 | | WIP |
| Risk Management | Review strategic and Service level risk management to give assurance on the effectiveness of monitoring and management of risks. | Q3 | September 2016 | | WIP |
| Growth Programme | Review and provide assurance on the governance and effectiveness of the Council's growth plans and agenda. | Q3 | December 2016 | | WIP |
| Service Transformation | Provide assurance that new delivery models are fit for purpose and align to the medium term financial plan and corporate objectives. | Q2 | Not started | | Cancelled see App1. |
| Intelligent Client Partnership Review | Using contingency days provide assurance on how the Council manages key partnerships and ensure WLDC officers can take a leading role partnership development. | Q3 | December 2016 | | WIP |
| ICT Audit 10 days | Area of coverage to be agreed | Q4 | Not started | | |
| ICT PCI DSS – Security of Electronic | To review the Council's compliance with PCI DSS systems. | Q3 | November 2016 | | Draft Report |

| Area | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Current Status / Assurance Opinion |
|--|--|--------------------|--------------------------------|---------------------|------------------------------------|
| payment records | | | | | |
| Consultancy and Emerging risks. | Audit time available for work not identified in the annual plan. | Q1 – Q4 | | | Cancelled see App1 |
| Project & Programme Management | Review the changes to the Councils governance arrangements and project management arrangements. Including the realignment of boards and management responsibilities. | Q3 | December 2016 | | WIP |
| Key Control Testing | Delivery of key control testing to enable the Head of Internal Auditor to form an opinion on the Council's financial control environment. | Q4 | Areas of coverage to be agreed | | Not started |
| Contingency Days – ICT Incident Management Follow Up | Follow up the Q1 low assurance audit to confirm that findings have been implemented. | Q4 | December 2016 | | WIP |

Appendix 3 - Overdue Audit Recommendations at 31.12.2016

Data is for audits where recommendations were due to be implemented by 31ST December 2016.

| Activity | Issue Date | Assurance | Total Recs | Recs implemented | Priority of Recommendations o/s | | |
|----------------------------------|------------|-------------|------------|------------------|---------------------------------|--------|-------------|
| | | | | | High | Medium | Not yet due |
| ICT Infrastructure 2012/13 | Aug 2013 | Limited | 15 | 14 | 1 | 0 | 0 |
| Budget Prep 2015/16 | Feb 2016 | High | 1 | 0 | 0 | 1* | 0 |
| Land, Property & Estates 2015/16 | Jan 2016 | Substantial | 6 | 4 | 0 | 2* | 0 |
| Local Land Charges 2015/16 | Nov 2015 | Low | 11 | 10 | 0 | 1* | 0 |
| Choice Based Lettings 2015/16 | Jun 2016 | Limited | 11 | 6 | 4 | 1 | 0 |
| Commercial | Sept 2016 | Consultancy | 11 | 6 | 0 | 1 | 4 |
| Totals | | | 55 | 40 | 5 | 6 | 4 |

*There are three recommendations where the original dates have been revised for completion. Details of these are attached in Appendix 6.

Appendix 4- Assurance Definitions¹

| | |
|-------------------------------------|---|
| <p>High Assurance</p> | <p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p> |
| <p>Substantial Assurance</p> | <p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p> |
| <p>Limited Assurance</p> | <p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p> |
| <p>Low Assurance</p> | <p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p> |

¹ These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 5- Performance Details 2016/17 Planned Work

| Performance Indicator | Annual Target | Profiled Target | Actual |
|---|---------------------|-------------------|-------------------|
| Percentage of plan completed. | 100% (revised plan) | 70% | 65% |
| Percentage of key financial systems completed. | 100% | 0% | 0% |
| Percentage of recommendations agreed. | 100% | 100% | 100% |
| Percentage of recommendations due implemented. | 100% or escalated | 100% or escalated | 100% or escalated |
| Timescales: Draft report issued within 10 working days of completing audit. | 100% | 100% | 100% 3 of 3 |
| Final report issued within 5 working days of CLT agreement. | 100% | 100% | 100% 3 of 3 |
| Period taken to complete audit –within 2 months from fieldwork commencing to the issue of the draft report. | 80% | 66% | 50% 2 of 3 |
| Client Feedback on Audit (average) | Good to excellent | Good to excellent | Excellent 2 of 2 |

Appendix 6 - Details of Outstanding Recommendations

| Audit Committee Attendee | Name | No. | Priority | Finding | Ref | Status | Agreed management action | Date to be completed | Response Comment | Revised date for | Person responsible | Rating | | | | | |
|---|------------------------------------|-----|----------|---|-----|-----------------|---|----------------------|---|------------------|--|-------------------|--|--|--|--|--|
| Gareth Kinton, NKDC and WLDC Shared ICT manager | WLDC ICT Infrastructure 12/13 | 3 | High | A 'high-level' IT strategy is being produced, however we were advised that it may not cover the use of 'shared' resources across authorities, including for example people and IT resources. The draft ICT strategy was not seen during the audit. | 3.1 | Not Implemented | Agreed Gareth Kinton (ICT Manager) will progress the recommendation for a detailed IT strategy with the business. It is recognised that the IT strategy should 'align' with other strategies from partner Authorities to whom closer integration may be required in the future. | 31/07/2016 | Date for completion extended again from 31 March 15 to 30 June 15 | 31/07/2016 | James O'Shaughnessy | Limited Assurance | GCLT review asked for further analysis | | | | |
| Ian Knowles - Director Resources | WLDC Commercial Plan Phase 1 16/17 | 1 | Medium | If there is no set criteria for delivering commercial projects. The Council may use valuable resource in developing projects which will not benefit it commercially. | 1.1 | Not Implemented | We will develop a set of commercial criteria to measure new projects against. This forms part of the wider project programme review. | 31/12/2016 | | | Ian Knowles Director Resources | | Officer unavailable. Will update in the New Year | | | | |
| Ian Knowles - Director Resources | WLDC Traded Services 2015/16 | 3 | Medium | The highlight reports to the Commercial Board set out the milestones for the project i.e. those achieved and yet to be reached; target dates are not specified in respect of some of the milestones to be achieved. There are instances where the highlight report shows no change from the previous report. Whilst it is acknowledged that there may be occasions where there is no progress/change, this may also indicate that an update has not been provided and reported. Including target dates for milestones and clarifying the current status will ensure that the Commercial Board can readily identify any slippage in the development of the commercial venture. | 3.1 | Not Implemented | All members of CLT will ensure that a SMART focus is immediately implemented or reasons where not possible eg next stage of a gateway review before further SMART milestones. | 31/12/2016 | | | Ian Knowles Director Resources | Substantial | Officer unavailable. Will update in the New Year | | | | |
| Mark Sturgess Chief Operating Officer | WLDC Local Land Charges 15/16 | 6 | Medium | There is no system to record or check that changes to the register are correctly applied and records are updated. This means the Council could be in breach of its statutory duty to keep an accurate register and that searches could be inaccurate and miss important information relating to land and properties. There is the risk of financial and reputational damage to the Council if it does not have confidence that the register is up to date and accurate. | 6.1 | Not Implemented | Reviewing and checking storage of change information with a view to data capture with information already updated to Earthlight system. | 31/03/2017 | Dates amended per client update see wp UP on audit summary. | | Phil Hinch - Licensing and Support Team Leader | Low | | | | | |
| Penny Sharp - Commercial Director | WLDC Commercial Plan Phase 1 16/17 | 2 | Medium | A key risk and consideration for the Council is not having sufficient resource and expertise to continuously develop and implement commercial projects. This has been highlighted as an issue and discussed by the board. At the time of the review plans to address this had not been finalised. | 2.1 | Not Implemented | GCLT agree resourcing proposals and prioritisation of resources against the corporate plan and MTFP | 30/09/2016 | | | Penny Sharp - Commercial Director | | No update available | | | | |

Appendix 6 - Details of Outstanding Recommendations

| | | | | | | | | | | | | | | | | |
|-----------------------------------|------------------------------------|---|--------|---|-----|-----------------|--|------------|--|--|--------------------------------|---------|--|--|--|--|
| Penny Sharp - Commercial Director | WLDC_Commercial Plan Phase 1 16/17 | 3 | Medium | We found that for a current developing large scale commercial project finance figures had been subject to a fresh internal review and scrutiny. This had made a substantial difference to some of the business case assumptions initially presented to decision makers. It is important that the Council can place reliance and be confident in developing project documentation. | 3.1 | Not Implemented | Agreed and linked to finding 1. As part of the project development process and commercial criteria develop a process for identifying large projects and external review of finance figures, to ensure VFM and effective use of resources | 31/12/2016 | | | Ian Knowles Director Resources | | Officer unavailable. Will update in the New Year | | | |
| Sarah Troman - Strategic Lead | WLDC_Choice Based Lettings 15/16 | 1 | High | The scheme is not working effectively and applicants are not getting the service they need. Current issues include a lack of compliance with the scheme by ACIS, including not meeting the 75% of properties let through the scheme target and not complying with the agreed process for Choice Based Lettings. 2014/15 actual figures where 58% and for 205/16 54% against the 75% target. ACIS have control of the nominations process for their own properties, which means that applicants successfully bidding on properties and complying with the scheme can still be turned down by ACIS without informing the Council why. These issues mean the service is not meeting its objectives of more choice for applicants and | 1.1 | Not Implemented | Deliver the partnership improvement plan with Acis Revise P&D measures to ensure they are relevant and meaningful Complete review of stock transfer agreement with Legal Services Identify capacity within the team and implement process to proactively monitor and reports on nominations performance | 30/11/2016 | | | Sarah Troman - Strategic Lead | Limited | Officer unavailable. Will update in the New Year | | | |
| Sarah Troman - Strategic Lead | WLDC_Choice Based Lettings 15/16 | 2 | High | The partnership is not working effectively to support the Choice Based Lettings scheme. The steering group is not meeting regularly, ACIS have not attended for over a year, minutes and records of meetings are not always retained. Issues needing to be addressed are not being effectively managed by the steering group which | 2.1 | Not Implemented | WLDC has taken the lead on the partnership and is driving the agenda for partners to deal with long standing issues. In addition, we will initiate and progress the review and improvement or replacement the Choice Based Lettings software systems. | 30/11/2016 | | | Sarah Troman - Strategic Lead | Limited | Officer unavailable. Will update in the New Year | | | |
| Sarah Troman - Strategic Lead | WLDC_Choice Based Lettings 15/16 | 3 | High | There is evidence gathered by the service from monitoring IT systems, anecdotal evidence within the section, customer complaints and partnership meeting minutes which show various IT system issues with the Choice Based Lettings system. This has impacted on the ability of the Council to deliver an effective robust service to Housing Register applicants. Due to the web site crashing and the system not completing automatic process, staff have to manually complete process where the system should do it. The process for addressing IT issues through the City of Lincoln contact is not effective. Issues | 3.1 | Not Implemented | IT system and the reliance of the Service on ICT will be reviewed and options agreed through Transformation Board and GCLT (as per above) Review legal documents to understand financial liability and contractual position. Request that Civica monitor website traffic to find out why the system keeps crashing. Senior Leadership to raise the immediate IT | 31/10/2016 | | | Sarah Troman - Strategic Lead | Limited | Officer unavailable. Will update in the New Year | | | |

Appendix 6 - Details of Outstanding Recommendations

| | | | | | | | | | | | | | | | | |
|-------------------------------|---|---|--------|--|-----|-----------------|---|------------|--|--|-------------------------------|-------------|--|--|--|--|
| Sarah Troman - Strategic Lead | WLDC_Choice Based Lettings 15/16 | 4 | High | <p>We found there is insufficient Council understanding of the contract with the partnership to provide IT systems for the Choice Based Lettings process.</p> <p>The Council should have a clear understanding of the contract length, terms and conditions, overall and annual costs. To ensure it remains compliant with contract management and procurement rules. And to ensure it can monitor and manage the contract for the best possible outcomes for applicants.</p> <p>The contract details have not been entered onto the Councils contract management recording system.</p> <p>A recent internal audit on contract management gave a low level of assurance on the Councils management of contracts.</p> | 4.1 | Not Implemented | <p>Clarify legal status of CBL partnership agreement</p> <p>Although not a contract, record the CBL partnership on Firefly to ensure there is a record of the partnership and relevant documents are attached</p> | 31/10/2016 | | | Sarah Troman - Strategic Lead | Limited | Officer unavailable. Will update in the New Year | | | |
| Sarah Troman - Strategic Lead | WLDC_Choice Based Lettings 15/16 | 5 | Medium | <p>We found that as part of the partnership and IT system agreement the Council should be charging ACIS for using the system but is not.</p> <p>We were unable to determine what the exact details and amounts are as there is a lack of details recorded on the contract specifics and as no charges have been made.</p> <p>The Council should apply the charges to ACIS in line with the agreement and ensure that where income is available it is collected.</p> | 5.1 | Not Implemented | <p>Review the terms of the agreement to ensure recharges are applied to Acis as appropriate.</p> | 30/11/2016 | | | Sarah Troman - Strategic Lead | Limited | Officer unavailable. Will update in the New Year | | | |
| Sarah Troman - Strategic Lead | WLDC_Land, Property & Estate Management 15/16 | 5 | Medium | <p>The Council has not implemented one of the key monitoring systems documented in the land and property strategy. This process is designed to support effective working and progress on asset management.</p> <p>The strategy states that all asset decisions will be monitored through a table which records priority, timescales and resource. With the large amount of asset work ongoing, different groups being involved in asset decisions and the raised profile of the service it is important that the Council maintains an overview of progress.</p> | 5.1 | Not Implemented | <p>See finding 3 and 4</p> | 30/10/2016 | | | Sarah Troman - Strategic Lead | Substantial | Officer unavailable. Will update in the New Year | | | |

Appendix 6 - Details of Outstanding Recommendations

| | | | | | | | | | | | | | | | | |
|-------------------------------------|---|---|--------|--|-----|-----------------|--|------------|--|------------|---|-------------|--|--|--|--|
| Sarah Troman - Strategic Lead | WLDC_Land, Property & Estate Management 15/16 | 6 | Medium | <p>The Council has adopted a corporate landlord approach to asset management. Where the team are central to all asset decisions and provide a consistent lead on land and property matters.</p> <p>The Council should reassess its strategic corporate landlord approach to ensure the available resource can deliver this approach.</p> <p>Processes and systems should be strengthened to ensure the property section is involved in all projects and decisions in line with the corporate land lord approach.</p> <p>We found examples here this was not the case and while this is not in line with stated strategic aims it also risks duplicating work, increased costs and possible poor outcomes for the Council due to this approach.</p> | 6.1 | Not Implemented | <p>Ensure the new structure addresses this by taking into account staff feedback.</p> <p>Develop an internal comms and PR programme to highlight what the property section does and to reinforce the corporate landlord message.</p> | 30/11/2016 | | 31/01/2017 | Gary Reeve - Team Manager Property and Assets | Substantial | | | | |
| Tracey Bircumshaw, Group Accountant | Budget Preparation 15/16 | | Medium | <p>There are no guidance notes in place to support the budget setting process. These are planned to be completed and are aligned to when the finance section had recruited permanent staff. This exercise has now been completed and guidance notes should be created.</p> <p>Detailed guidance notes provide an overview of the process and support confidence in the system and accountants understanding of the key process of budget setting.</p> | 0.1 | Not Implemented | Agreed, finance guidance notes to be complete for the budget setting process. | 31/07/2016 | | 31/01/2017 | Sue Leversedge, Principal Accountant | High | | | | |



| |
|---------------------------------|
| GA.42 16/17 |
| Governance & Audit Committee |
| 17 January 2017 |

E

Subject: Draft Treasury Management Strategy 2017/18

Report by:

Financial Services Manager

Contact Officer:

Tracey Bircumshaw, Financial Services Manager
01427 676560

Purpose / Summary:

To scrutinise the Treasury Management Strategy and recommend its inclusion within the Medium Term Financial Plan.

RECOMMENDATIONS:

- 1. To scrutinise and recommend to Council the inclusion of the Treasury Management Strategy in the Medium Term Financial Plan**
- 2. To acknowledge the Treasury Management Practices**

IMPLICATIONS

Legal:

The Local Government and Finance Act 2003 and the Treasury Management Code of Practice and Sectorial Guidance include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

Financial: FIN/107/17

None from this report

Staffing :

None arising from this report.

Equality and Diversity including Human Rights :

*NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.*

Risk Assessment :

Interest Rate Risk: A rise in interest rates may lead to capital investment loss due to the inverse price and yield relationship and vice versa.

Inflation Risk: Real returns can be eroded if inflation is expected to or rises during the term of the investment, therefore capital value may be reduced

Re-Investment Risk: the effect of changing interest rates on re-investment before maturity.

Credit Risk: The value of an investment can be affected by the credit quality/rating of the issuer.

Default Risk: Possibility that total principal may not be returned before maturity, or partially returned.

Risks associated with investing for longer periods, and in instruments where the values can go down as well as up, will require mitigation as there will be increased risk to the security and liquidity of investments.

Mitigation of these risks will be undertaken by defining the restrictions of time and maximum value of investment made and with appropriate financial appraisals being undertaken for each investment. Close monitoring of the investment performance will also be undertaken.

By putting these mitigations in place will result in a spread of risk throughout the portfolio.

Climate Related Risks and Opportunities :

None arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

Treasury Management Code of Practice and Cross-Sectorial Guidance Notes 2011

All papers are located in the Financial Services section, Guildhall

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No

1. Executive Summary

The Treasury Management Strategy has been developed to take into account our cashflow requirements, and our capital investment plans over the medium term.

The Councils Corporate Plan identifies the Corporate Objectives of the Council and which then informs investment requirements. The 2017/18 to 2021/22 Capital Programme therefore includes significant capital investment which will require resourcing, from revenue, earmarked reserves, capital receipts, grant income, and borrowing.

Specifically the Commercial Strategy, the Asset Management Plan, economic growth and housing regeneration, opportunities deliverable through Housing Zone status, and investment in services will meet wider corporate objectives and deliver social benefits for the district, however, these require significant capital investment which will result in a borrowing need.

The significant changes to the Treasury Management Strategy are detailed below;

It is proposed that the Borrowing Strategy, which was previously restricted to borrowing purely for capital investment which would generate future revenue income streams and/or capital receipts in addition to meeting the costs of borrowing, be expanded to include any investment where resources can be identified which can fund the cost of borrowing. Such schemes may provide social and economic value ie for regeneration schemes or be for service or asset improvement ie operational buildings, IT systems etc. All borrowing will remain affordable and sustainable over the long term. The borrowing strategy has therefore been amended to reflect this.

The Strategy also includes an increase to the maximum investment limit within the Local Authority Property Fund (CCLA) from £2m to £4m. This is a longer term investment option. Based on current cashflow projections over the medium term this amount of money is available for investment in excess of years. Members should be aware however, that the fund value (capital investment) can go down as well as up.

2. Background

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

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

CIPFA defines treasury management as:

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

2.2 Reporting requirements

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

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

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

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Corporate Policy and Resources Committee will receive quarterly update reports.

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

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance & Audit Committee in respect of the Treasury Management Strategy, and by the

Corporate Policy and Resources Committee for the Mid-Year and Annual Treasury Management Reports.

2.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

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

Treasury management issues

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

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

2.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. This specific training was delivered on 9th January and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

2.5 Treasury management consultants

The Council uses Capita Asset Services -Treasury Solutions as its external treasury management advisors.

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

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

3. The Capital Prudential Indicators 2017/18 – 2019/20

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

3.1 Capital expenditure

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

| Capital expenditure £m | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Total | 0.962 | 9.706 | 24.170 | 21.466 | 9.092 |

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

| Financing of capital expenditure £m | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| Total | 0.962 | 9.706 | 24.170 | 21.466 | 9.092 |
| Capital receipts | 0.560 | 0.705 | 0.589 | 0.475 | 0.150 |
| Capital grants | 0.356 | 0.788 | 1.507 | 1.746 | 3.631 |
| Capital reserves | 0.000 | 2.613 | 3.946 | 3.332 | 2.581 |
| Revenue | 0.046 | 0.025 | 0.023 | 0 | 0 |
| Net financing need for the year | 0.000 | 5.575 | 18.105 | 15.913 | 2.730 |

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital

expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.122m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

| £m | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement | | | | | |
| Accounting Adj | 1.065 | 1.065 | 1.065 | 1.065 | 1.065 |
| Finance Leases | 0.342 | 0.122 | 0.027 | 0 | 0 |
| Prudential Borrowing | 0 | 5.575 | 23.580 | 39.061 | 40.971 |
| Total CFR | 1.407 | 6.762 | 24.672 | 40.126 | 42.036 |
| Movement in CFR | 0.224 | 5.355 | 17.910 | 15.454 | 1.910 |

| Movement in CFR represented by | | | | | |
|--|--------------|--------------|---------------|---------------|--------------|
| Net financing need for the year (above) | 0.004 | 5.575 | 18.105 | 15.913 | 2.730 |
| Less MRP/VRP and other financing movements | 0.228 | 0.220 | 0.195 | 0.459 | 0.820 |
| Movement in CFR | 0.224 | 5.355 | 17.910 | 15.454 | 1.910 |

Note: MRP includes finance lease annual principal payments

3.3 Core funds and expected investment balances

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

| Year End Resources £m | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|----------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| General Fund balance | 3.715 | 3.074 | 1.974 | 1.774 | 2.074 |
| Earmarked Reserves | 13.847 | 12.760 | 11.092 | 8.880 | 7.172 |
| Capital receipts | 2.984 | 2.532 | 1.868 | 1.463 | 1.383 |
| Provisions | 1.012 | 1.000 | 1.000 | 1.000 | 1.000 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Total core funds | 21.558 | 19.366 | 15.934 | 13.117 | 11.629 |
| Working capital* | -0.179 | -1.079 | -0.684 | 1.835 | 2.564 |
| Under/(-)over borrowing** | 1.065 | 6.640 | 6.145 | 3.626 | 2.536 |
| Expected investments | 20.682 | 13.726 | 10.474 | 7.657 | 6.619 |

*Working capital balances shown are estimated as at the year end and exclude investments (may be higher mid-year).

** Reflects internal borrowing

3.4 Affordability prudential indicators

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

3.5 Ratio of financing costs to net revenue stream

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

| % | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|--------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Ratio | 0.25 | 1.44 | 6.46 | 11.54 | 15.69 |

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

The financing costs include;

Minimum Revenue Provision (Leasing principle)

Loss of investment interest due to investment of funds

Additional interest receivable from investments (Loans)

Additional revenue costs and income generated by the capital investment.

This is measured against the reducing Net Budget requirement over the Medium Term Financial Plan.

3.6 Incremental impact of capital investment decisions on council tax

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

| £ | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2020/21 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Council tax - band D | £0.30 | -£1.44 | £2.21 | £6.57 | £6.17 |

4. Borrowing

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

4.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £m | 2015/16 Actual | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt | | | | | |
| Debt 1 April | | 0 | 0 | 18.500 | 36.500 |
| OLTL 1 April | 0.570 | 0.342 | 0.122 | 0.027 | 0 |
| Expected change in Debt | 0 | 0 | 18.500 | 18.000 | 3.000 |
| Expected Change in Other long-term liabilities | -0.0228 | -0.220 | -0.095 | -0.027 | 0 |
| Actual gross debt at 31 March | 0.342 | 0.122 | 18.527 | 36.500 | 39.500 |
| The Capital Financing Requirement | 1.407 | 6.762 | 24.672 | 40.126 | 42.036 |
| Under (-) / over borrowing | -1.065 | -6.640 | -6.145 | -3.626 | -2.536 |

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

4.2 Treasury Indicators: limits to borrowing activity

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

| Operational boundary £m | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | 5.575 | 23.680 | 39.953 | 42.323 |
| Other long term liabilities | 0.121 | 0.027 | 0 | 0 |
| Total | 5.696 | 23.707 | 39.953 | 42.323 |

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while

not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

| Authorised limit £m | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | 23.680 | 39.593 | 42.323 | 42.323 |
| Other long term liabilities | 0.121 | 0.027 | 0 | 0 |
| Total | 23.801 | 39.620 | 42.323 | 42.323 |

4.3 Prospects for interest rates

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

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

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until

quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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

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

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

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

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16;
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

4.4 Borrowing strategy

The Council may undertake borrowing for capital investment;

- to support commercial aspirations, where returns can meet the cost of borrowing.
- to support schemes with a socio-economic value ie for the regeneration and growth of the District.
- to support significant service investment where the cost of borrowing will be offset by efficiencies and/or cost savings

All borrowing will be affordable and sustainable within the long term seeking to achieve a £0 effect to the budget.

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

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

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

4.5 Policy on borrowing in advance of need

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

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

Council, at the earliest meeting following its action.

4.7 Municipal Bond Agency

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

5. Annual Investment Strategy

5.1 Investment policy

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

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

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

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

Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

5.2 Creditworthiness policy

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

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

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

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

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

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

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

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

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

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

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

Council may use, rather than defining what types of investment instruments are to be used.

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

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

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAand have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - i. Short Term – F1
 - ii. Long Term – A
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will *use* all societies which:
 - i. Meet the ratings for banks outlined above;
- Money market funds (MMFs) – AAA
- Enhanced money market funds (EMMFs) - AAA
- UK Government (including gilts, treasury bonds and the DMADF)
- Local authorities, parish councils etc.

- Supranational institutions
- Local Authority Property Asset Fund (CCLA)
- Corporate Bond Funds
- Covered Bonds

A limit of £2m per counterparty will be applied to the use of non-specified investments largely determined by the long term investment limits.

Except for Local Authority Property Asset Fund which will have a limit of £4m

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

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments). It should be noted that in the case of Lloyds Bank, our current bankers, that as well as allowing £5m fixed term investment in that one institution that there is flexibility to hold, in current account balances at Lloyds Bank, up to £1m 'cash' on any one day:

| | Fitch | Moody's | Standard & Poors | Money Limit | Time Limit |
|---|-------|---------|------------------|-------------------------------------|-------------------|
| Banks 1 – up to 1 year | F1 | P1 | A1 | £5m per counterparty at Group level | 1 year |
| Banks 1 – over 1 year | AA | Aa2 | AA | £2m maximum exposure | 1 year to 5 years |
| Banks 2 – UK part nationalised | | | | £5m per counterparty at Group level | 1 year |
| Banks 3 – Council's own bank if not covered by 1 or 2 | | | | £1m | 1 day |
| Other Local Authorities | | | | £5m per counterparty | 5 years |
| Bank of England DMADF | | | | No limit | 6 months |
| Gilts/Treasury Bills – where no loss of principle if held to maturity | | | | £5m maximum exposure | 5 years |
| Supranational | | | | £5m per counterparty | 1 year |

| | | | | | |
|--------------------------------------|--------------------|--|--|----------------------|-------------------|
| Quality Corporate Bond Funds | | | | £2m | 5 years |
| Local Authority Property Asset Funds | | | | £4m | 5 years |
| Certificates of Deposit | | | | £2m | 5 years |
| Covered Bonds | | | | £1m | 5 years |
| | Fund rating | | | Money Limit | Time Limit |
| Money market funds | AAA | | | £5m per counterparty | overnight |
| Enhanced money market funds | AAA | | | £5m | 5 years |

The proposed criteria for specified and non-specified investments are shown in Appendix 5.5 for approval.

5.3 Country and sector limits

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

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £2m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

5.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Longer term investment will be undertaken where it is anticipated that levels of reserves and cashflows are adequate over the medium term.

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

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%

- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year provided by Capita are detailed below;

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

However, West Lindsey District Council will maintain a budget target of 1% for 2017/18, taking into account fixed rate and the longer term investment in the Local Authority Property Fund.

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

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

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

| Maximum principal sums invested > 364 days | | | |
|--|----------------|----------------|----------------|
| £m | 2017/18 | 2018/19 | 2019/20 |
| Principal sums invested > 364 days | £6m | £6m | £6m |

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

5.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they 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 to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

1.1 Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.06% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Council seeks to maintain:

- Liquid short term deposits of at least £4m available with a week's notice.
- Weighted average life benchmark is expected to be 0.25 years, with a maximum of 1 year.

Yield - local measures of yield benchmarks are;

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is:

| | 1 year | 2 years | 3 years | 4 years | 5 years |
|----------------|--------------|--------------|--------------|--------------|--------------|
| Maximum | 0.07% | 0.19% | 0.36% | 0.55% | 0.77% |

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

5.6 End of year investment report

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

6. Appendices

1. MRP Policy Statement and Treasury Prudential Indicator for Debt
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management

5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

Appendix 1. MRP POLICY STATEMENT AND TREASURY PRUDENTIAL INDICATOR FOR DEBT

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

1.1 Minimum revenue provision (MRP) policy statement

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

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

For all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method – Equal Instalment**
MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

Except for the elements below;

- **Asset life method – Annuity Method**
For commercial, regeneration or administrative projects, where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate rate.
- **Loan Principle repayment as proxy for MRP**
The council considers that where borrowing has funded loan advances, the loan principle repaid as a capital receipt negates the requirement to set aside an annual MRP charge, or in the event of default the realisation of security.

Repayment of principle included in finance leases are applied as MRP.

Should the Council consider any Capital Investment whereby a capital receipt would be realised within the short/medium term i.e. for Capital Investment where the asset is to be held for a set period, and a capital receipt is expected to be realised at the end of this period, then the requirement to aside a

minimum revenue provision to repay the debt will be considered on a case by case basis and in such cases, and in agreement with the Auditor, MRP may not be applied subject to taking account of any risks, project profiles and revenue income streams.

1.2 Treasury indicators for debt

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

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

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

| £m | 2017/18 | 2018/19 | 2019/20 |
|---|--------------|--------------|--------------|
| Interest rate exposures | | | |
| | Upper | Upper | Upper |
| Limits on fixed interest rates based on net debt | 100% | 100% | 100% |
| Limits on variable interest rates based on net debt | 75% | 75% | 75% |
| Maturity structure of fixed interest rate borrowing 2017/18 | | | |
| | Lower | Upper | |
| Under 12 months | 0% | 100% | |
| 12 months to 2 years | 0% | 100% | |
| 2 years to 5 years | 0% | 100% | |
| 5 years to 10 years | 0% | 100% | |
| 10 years and above | 0% | 100% | |
| Maturity structure of variable interest rate borrowing 2017/18 | | | |
| | Lower | Upper | |
| Under 12 months | 0% | 25% | |

| | | |
|----------------------|----|-----|
| 12 months to 2 years | 0% | 25% |
| 2 years to 5 years | 0% | 25% |
| 5 years to 10 years | 0% | 25% |
| 10 years and above | 0% | 25% |

Appendix 2. INTEREST RATE FORECASTS 2016 – 2020

PWLB forecasts are based on PWLB certainty rates available to WLDC (-.2bps).

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

| Capita Asset Services Interest Rate View | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Dec-19 | Mar-20 |
| Bank Rate View | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% | 0.75% |
| 3 Month LIBID | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.40% | 0.50% | 0.60% | 0.80% | 0.90% |
| 6 Month LIBID | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.50% | 0.60% | 0.70% | 0.90% | 1.00% |
| 12 Month LIBID | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.80% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.40% |
| 5yr PWLB Rate | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 2.00% | 2.00% |
| 10yr PWLB Rate | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% |
| 25yr PWLB Rate | 2.90% | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% |
| 50yr PWLB Rate | 2.70% | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% |
| Bank Rate | | | | | | | | | | | | | |
| Capita Asset Services | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% | 0.75% |
| Capital Economics | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% |
| 5yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 2.00% | 2.00% |
| Capital Economics | 1.60% | 1.70% | 1.80% | 1.90% | 1.95% | 2.05% | 2.20% | 2.30% | 2.40% | 2.60% | 2.80% | 3.20% | 3.30% |
| 10yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% |
| Capital Economics | 2.30% | 2.35% | 2.45% | 2.50% | 2.55% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.60% | 3.70% |
| 25yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.90% | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% |
| Capital Economics | 2.90% | 3.00% | 3.05% | 3.10% | 3.15% | 3.25% | 3.30% | 3.35% | 3.45% | 3.55% | 3.75% | 4.15% | 4.35% |
| 50yr PWLB Rate | | | | | | | | | | | | | |
| Capita Asset Services | 2.70% | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% |
| Capital Economics | 2.80% | 2.85% | 2.95% | 3.00% | 3.05% | 3.10% | 3.15% | 3.20% | 3.30% | 3.50% | 3.70% | 4.10% | 4.20% |

Appendix 3. ECONOMIC BACKGROUND

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

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

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

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

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

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

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

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

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

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

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase

was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. **House prices** have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best

positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

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

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

The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing **the Fed. Rate**. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

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

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This

was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

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

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a 'no' vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is

urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear what the political, and other, repercussions could be if there is a 'No' vote.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

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

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

further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

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

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

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

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Appendix 4. TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 2

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 01/03/2010 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out within the main report.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

| | Non Specified Investment Category | Limit £ |
|----|--|----------------|
| a. | Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | £5m |
| b. | The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible. | £1m |
| c. | Any bank or building society that has a minimum long term credit rating of AA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). | £2m |
| d. | Enhanced Money Market Funds AA rated | £2m |
| e. | Corporate Bond Funds | £2m |
| f. | Local Authority Property Asset Fund | £4m |

| | | |
|----|--|-----|
| g. | Certificates of Deposit | £2m |
| h. | Covered Bonds | £1m |
| i. | Property funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. | |

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Appedix 5. APPROVED COUNTRIES FOR INVESTMENTS

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

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

Appendix 6. TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Corporate Policy and Resources Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(iii) Governance and Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the full Council.

Appendix 7. THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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



| |
|---|
| GA.43 16/17 |
| Governance & Audit Committee |
| 17 January 2017 |

Subject: CLOSURE OF ACCOUNTS 2016/17 – ACCOUNTING MATTERS

| | |
|--------------------|---|
| Report by: | Tracey Bircumshaw |
| Contact Officer: | Tracey Bircumshaw Financial Services Manager 01427 676560 Tracey.Bircumshaw@west-lindsey.gov.uk |
| Purpose / Summary: | To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2016/17 accounts. |

- RECOMMENDATION(S):**
1. Members are recommended to approve the proposed Accounting Policies (as included at Appendix 1)
 2. Members consider and make comment on the Actuary’s Report and pension assumptions (as included at Appendix 2, 3)
 3. Members are recommended to approve the proposed materiality levels as included at section 4 including the revisions detailed at 4.7.
 4. Members consider and make comment on the risk assessment (at Appendix 4)
 5. Members consider and make comment on the key closedown dates at Section 6.

6. Members should accept the main accounting changes for 2016/17 and onwards as shown at section 7.
7. That members accept that in future years due to the earlier deadline the the Unaudited Statement of Accounts will be circulated **after** issue by the S151 Officer.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial FIN/85/17: None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2016/17. The levels of materiality set will have minimal impact.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses wildly inaccurate assumptions. An assessment of all risks is attached at Appendix 5.

Climate Related Risks and Opportunities: None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes No

Key Decision:

Yes No

1.0 Background

- 1.1 The Council is required to produce, by 30th June annually, a Statement of Accounts that draws together all the financial statements for the accounts for the previous financial year.
- 1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2016/17 (the Code).
- 1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial position, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.
- 1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2016/17.

2. Accounting Policies

- 2.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.
- 2.2 The recommended policies are closely aligned to the model accounting policies as included within the Code guidance.
- 2.3 Members should note only material accounting policies will be included within the Statement of Accounts.

- 2.4 The following changes of accounting policies have been made since the production of the 2015/16 financial statements:
- The addition of a policy for heritage assets since a number of assets have recently been identified and reclassified as heritage assets this includes the Civic chains and War Memorial.

3.0 Actuarial Report and Assumptions

- 3.1 The Councils pension scheme is administered by Lincolnshire Council with pension contributions included in the county wide pension fund.
- 3.2 The County Council uses Hymans as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.
- 3.3 The actuary also does a formal valuation of the pension fund every three years, with 2016 being the valuation year. The purpose of the review is to:
- calculate the Councils funding position within the fund
 - determine the contributions that the Council will pay from April 2017 to March 2020.

The valuation report and its assumptions are included at Appendix 2 and the results for this Council are attached at Appendix 3. However, a further report will be due from the actuary for the valuation as at the 31 March 2016 position

- 3.4 The results of the review require an increase in the annual cash sum but this will be offset by a reduction in the employer's percentage contributions rate to 16.2% for each of the next three financial years. The Medium Term Financial Plan percentage contribution rates had been estimated at 18.1% for 2017/18, 19.1% for 2018/19 and 20.1% for 2019/20. The overall impact on the Councils MTFP budget can therefore be summarised as follows:

| <u>Pressure/(Savings) on MTFP 2017/18 to 2021/22</u> | | | | | |
|---|---------------------------|---------------------------|---------------------------|-----------------------------|-----------------------------|
| | Actual 2017/18 | Actual 2018/19 | Actual 2019/20 | Estimate 2020/21 | Estimate 2021/22 |
| | £ | £ | £ | £ | £ |
| Pension deficit contributions-cumulative <i>annual impact for budget model</i> | 86,400 | 140,900 | 197,500 | 263,200 | 363,200 |
| | 86,400 | 54,500 | 56,600 | 65,700 | 100,000 |
| Superan % Rate-cumulative £ <i>annual impact for budget model</i> | (105,800) | (162,200) | (220,600) | (280,800) | (280,800) |
| | (105,800) | (56,400) | (58,400) | (60,200) | 0 |
| Total (Saving)/Cost | (19,400) | (21,300) | (23,100) | (17,600) | 82,400 |

- 3.5 The pension values are comparatively large when taken in the context of the Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts, albeit this is a long term liability which is projected to be funded within 20 years. It is right therefore that they should receive special scrutiny.
- 3.6 Although the assumptions have been determined by Hymans, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2016/17.
- 3.7 The actuarial assumptions report as provided by Hymans has yet to be received. However we will consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.
- 3.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.
- 3.9 Estimated values of contributions and deficit reduction payments are submitted to the Actuary to take into account when calculating the final IAS19 report for inclusion within the Accounts.

4.0 Materiality Levels for 2016/17

- 4.1 Members may be aware of the earlier closedown requirement from next year i.e. for the closure of the 2017/18 accounts. In readiness for that, Members should consider approving materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the new statutory deadline of 31 May 2018.

- 4.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- 4.3 Materiality is an amount that makes a difference to the users- an audit never provides 100% assurance- only “reasonable assurance.” For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material.'
- 4.4 External Audit set a materiality level for the Council of around £600,000 for 2015/16 and amounts less than £30,000 were considered trivial (ie not significant)
- 4.5 The financial effect of applying these materiality levels cannot be accurately assessed since some could result in a revenue budget underspend and some could result in a revenue budget overspend. There will be equal and opposite under and over spends in the following financial year.
- 4.6 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Councils overall financial position or the financial statements that will still show “a true and fair view”.
- 4.7 The following levels of materiality are therefore suggested for particular classes of transactions, account balances or disclosures:
1. Disclosure of material items of income and expenditure (Note 5)
£750,000 being ½% of total revenue (reduced from £1m)
 2. Manual Accruals - limit of £2,000 (increased from £1,000)
 3. Disclosures - £750,000 (reduced from £1m)
 4. 5% of income for continuing operations
 5. Related party transactions increase from £2,000k to £10,000k
 6. Stocks – anything less than £10,000 is charged to revenue in year

7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.
- 4.8 The Council has for some years in place a capital de minimis level of £10k (i.e. all sums below this value are treated as revenue) and it is proposed that this sum remain unchanged.

5.0 Risk Assessment

- 5.1 An assessment of the risks associated with closing the Councils accounts and producing the Financial Statements has identified a number of risks. The assessment is attached at Appendix 5.
- 5.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.
- 5.2 These risks are then scored again after applying any actions to be taken to mitigate the risk.
- 5.3 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only one risk having an amber rating and no risks identified as being high (red).

6.0 Key Closedown Timetable

- 6.1 In order to achieve the earlier closedown for the 2017/18 accounts, officers have been working hard over the last two years to reduce the length of time to achieve tasks and also to bring forward the deadlines.
- 6.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.
- 6.3 For last year's closedown the timetable was revised to test if we could achieve the 31 May deadline. The actual achievement was the deadline was exceeded by 17 days. This has enabled us to see where we need to focus our efforts and resources going forward.

- 6.4 A detailed timetable is produced (with some 230+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Councils external auditors.
- 6.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.
- 6.6 The following table shows those key tasks and dates for the 2016/17 closedown process.

| TASK | Key Dates |
|--|------------------------|
| Planning and Preparation | 1.11.2016 - 31.12.2016 |
| KPMG Audit Liaison Meeting (TBC) | 16.11.2016 |
| Balance Sheet Review at 30.12.2016 | 31.1.2017 |
| Finance Team Closedown Briefing | 6.1.2017 |
| Interim Audit (TBC) | 13.3.2017 |
| Budget Managers/SLT Briefings/Training | 18.1.2017 |
| Report to G&A Committee – Accounts Closedown Matters | 17.1.2017 |
| Narrative Report draft | 31.3.2017 |
| Close the period 12 | 1.4.2017 |
| Accruals/Prepayments input to system | 7.4.2017 |
| All Accounts Closed | 30.4.2017 |
| Balance Sheet and CIES completed | 2.5.2017 |
| Statement of Accounts completed | 24.5.2017 |
| Review of Statement of Accounts | 30.5.2017 |
| Authorised for Issue by S151 Officer | 31.5.2017 |
| Send Statement of Accounts to Auditors | 31.5.2017 |
| Out-turn position Report to CP&R | 15.6.2017 |
| Audit of Accounts (TBC) | 20.6.2017(tbc) |
| Unaudited Statement of Accounts to Audit and Governance Committee | 20.6.2017 |
| WGA (subject to date of issue) | 31.5.2017 |
| G&A Approval of Statement of Accounts and AGS | 14.9.2017 |
| Publish Statement of Accounts on website and issue notice | 30.9.2017 |

7.0 Accounting Changes 2016/17

- 7.1 There are a number of accounting changes that will affect the 2016/17 Statement of Accounts and onwards with the majority being minor and having little significance to Members. However, as a result of the “Telling the Story” review of the presentation of local authority financial statements there are a number of major changes.
- 7.2 For Members reading the annual financial statements, the most important issue will be whether the Council has a surplus or deficit on General Fund balances against what it expected in the budget. This was difficult to determine from the Consolidated Income and Expenditure Statement.
- 7.3 Additionally, the service reporting within the Consolidated Income and Expenditure statement does not reflect the Councils budget setting or financial monitoring formats.
- 7.4 The new changes to the financial statements should enable Councils to demonstrate performance in a way in which they organise themselves and more importantly how they budget against the General Fund to provide services. We are currently in discussion with our Auditors in relation to these new statements as their prescribed format is not reflective of how we currently report to Members.
- 8.0 2017/18 Statutory Deadline (moved to 31 May 2018 and Audited by 31 July 2018)**
- 8.1 Due to new statutory deadlines for the 2017/18 Statement of Accounts, it will no longer be possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Director of Resources (Chief Finance Officer S151). They will however, be issued to Members of the Governance and Audit Committee at the earliest opportunity.

1 ACCOUNTING POLICIES***i General Principles***

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) and the *Service Reporting Code of Practice 2016/17*, supported by the International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Expenses incurred, which relate to employees, are not accrued for as they are considered to be relatively stable year on year and omitting them would not result in a material error
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii Acquired Operations

All operations acquired in year will be treated in line with the Council's accounting policies and if material disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

iv Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

v Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi Charges to Revenues for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the relevant service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Any charge in 2016/17 relates to the Council's current credit arrangements for Finance Leases for which the outstanding liabilities are repaid over the term of the agreement.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Vii Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

viii Employee Benefits

The Council accounts for employment and post-employment benefits when employees earn

them and the Council is committed to providing them, even if the actual provision might be many years into the future. Employee benefits are accounted for in the following four categories:

a) ***Benefits Payable During Employment***

Short-term employee benefits are those due to be settled wholly within twelve months of the Balance Sheet date and include, wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits, and similar payments and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c) ***Post – Employment Benefits***

Employees of the Council are eligible to be members of the Local Government Pension Scheme (LGPS), administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

d) ***The Local Government Pension Scheme***

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- Liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of x% (determined by reference to market yields at the end of the reporting period on high quality corporate bonds (iBoxx AA over 15 year index).
- The assets of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet at fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

The assessment process takes the most recent triennial actuarial valuation and updates it to reflect current conditions.

The change in the net pensions liability is analysed into seven components:

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past Service Costs – the increase in liabilities as a result of a scheme amendment or a decision whose effect relates to years of service earned in earlier years (curtailment) – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Net Interest – on the net defined benefit liability/asset, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.

Remeasurement comprising:

Return on scheme assets – excluding amounts included in net interest on the net defined benefit liability/asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses - changes in net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Lincolnshire CC Pension Fund

Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Further information can be found in the Lincolnshire Local Government Pension Fund Annual Report. Which is available from:

**The Resources Directorate
Lincolnshire County Council,**

**County Offices
Newland,
Lincoln, LN1 1YG**

ix **Events after the Reporting Period**

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events,
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x **Financial Instruments**

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The Council currently has no borrowing.

Financial liabilities are classified into two types:

- amortised cost – liabilities that are not held for trading, such as operational creditors and borrowings; and
- fair value through profit or loss – liabilities held for trading.

The Council currently only has liabilities carried at amortised cost relating to Finance Leases, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the lease agreement.

Financial Assets

Financial assets are classified into two types;

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at the amortised costs. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made this means that the amount presented on the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement as the amount receivable for the year in the loan agreement.

Where assets are impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investing Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following

principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or deficit on the Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments are due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xi Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xii **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

xiii **Heritage Assets-General**

The council holds two heritage assets, Civic Regalia and the Cenotaph

Heritage assets are recognised and measured (including the treatment of valuation gains and losses) in accordance with the council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

- **Civic Regalia**
These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis. These items are deemed to have indeterminate lives and a high residual value; hence the authority does not consider it appropriate to charge depreciation. The collection is static and acquisitions and donations would not occur.
- **Cenotaph**
The authority does not consider that reliable cost or valuation information can be obtained for this item. This is because of the lack of comparable market values. Consequently the council does not recognise this asset on the balance sheet

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – (see Accounting Policy xx Property Plant and Equipment) in this summary of significant accounting policies. The council will occasionally dispose of heritage assets. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and

equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts – see note xx in this summary of significant accounting policies

xiv *Intangible Assets*

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences, rights to use land) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. All such expenditure is accounted for on an accruals basis and capitalised as a non-current asset.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Xv *Inventories and long-term contracts*

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xvi **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000 the Capital Receipts Reserve).

xvii **Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and the resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

xviii **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the

lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at

the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debt) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element of the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs

incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xix **Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the Council's arrangements for accounting and accountability. They are based on the total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale, or unused IT/property costs.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xx **Property Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is possible that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising;

- The purchase price

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure assets, community assets and assets under construction – depreciated historical cost
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets –current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year–end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives commencing in the first full year that the asset is included in the Council's accounts. An exception is made for assets without a determinable useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings– straight line allocation over the life of the property as estimated by the valuer with the exception of a number of leased

shops, where the remaining term of the lease has been used

- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer
- Infrastructure – straight line allocation.

Asset Useful Economic Lives assumed

| Assets | Useful Life Range (years) |
|---|----------------------------------|
| Offices/Leisure Centre | 20 to 60 |
| Depots and Stores | 50 |
| Shops | 50 |
| Public Conveniences | 41 |
| CCTV system/IT Equipment/Wheeled Bins/Office Equipment | 1 to 15 |
| Vehicles/Bin Lifters | 1 to 6 |
| Infrastructure Assets | 22 to 33 |
| Dwellings | 44 to 46 |

Where an item PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or

scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and credited to the Capital Receipts Reserve. The balance on the Capital Receipts Reserve can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

***Xxi* Provisions, Contingent Liabilities and Contingent Assets**

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance the Council may be involved in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent liabilities

A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed only by the occurrence or otherwise of uncertain future events, not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiii Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv **Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Xxv **Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measured date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.



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| GA.44 16/17 |
| Governance & Audit Committee |
| Date: 17 th January 2017 |

G

Subject: Periodic review of the Annual Governance Statement Action Plan 2015/16

Report by:

Ian Knowles, Director of Resources

Contact Officer:

Business Improvement & Corporate Governance Manager

Purpose / Summary:

To review the progress with the Annual Governance Statement 2015/16 Action Plan.

RECOMMENDATION(S):

- 1) That Members seek assurance that the current position of the Annual Governance Statement Action Plan for 2015/16, will result in the completion of all relevant actions by July 2017.**

IMPLICATIONS

Legal: The Annual Governance Statement details compliance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations (amendment) (England) Regulations 2011.

Financial: FIN 111/17 Actions included in the Annual Governance Statement will be covered by existing resources.

Staffing: The action plan details the staff that are responsible for specific actions

Equality and Diversity including Human Rights: None

Risk Assessment: Risk management arrangements are part of corporate governance and issues raised under the arrangements were included within the Annual Governance Statement for this period.

Climate Related Risks and Opportunities: None

Title and Location of any Background Papers used in the preparation of this report:
Annual Governance Statement and Action Plan file in Business Improvement.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No

1. Information

- 1.1 The Annual Governance Statement is the formal statement of the quality of the Council's governance arrangements, in accordance with the Accounts and Audit (England) Regulations 2011.
- 1.2 The Governance and Audit Committee in July 2016 agreed the Annual Governance Statement for 2015/16 and noted that an action plan would be put in place and monitored by the Committee to address the significant issues.

2. Significant Issues 2015/16

- 2.1 The significant issues that were identified for development were:
 - Strategic & Spatial Planning
 - Development Management
 - Strategic Programme Delivery
 - Information Governance & Security
 - Intelligent Clienting
 - Selective Licensing

3. The Action Plan

- 3.1 The Action Plan is attached and shows the current position with work designed to resolve the issues that have been identified.
- 3.2 The action relating to Strategic & Spatial Planning has been assigned an extended due date to the end of July 17. This is so as to track the receipt of the Inspectors report; the subsequent adoption of the Plan and the introduction of supporting arrangements with partners to support its delivery.
- 3.3 At present it is envisaged that all other matters will be appropriately addressed by their respective due dates.

| Title | Description | Action | Current Position | Date Due | BRAG | Revised Date | Officer |
|-----------------------------------|---|---|--|------------|-------|--------------|---------------|
| Strategic & Spatial Planning | Upon completion of the Local Plan and in light of the Greater Lincolnshire focus on strategic and spatial planning, we need to ensure West Lindsey's growth needs and strategic planning duties are understood and addressed to include duty to co-operate with all relevant strategic planning areas including all Nottinghamshire authorities | To undertake review of future options and develop a strategy for delivery | 1. Central Lincolnshire Local Plan currently at Examination stage (due to end 14 December 2016) 2. Inspector's report due in February/March 2017 3. Formal adoption April 2017 through the CLISPC. 3. Proposals for supporting the local plan post adoption in discussion with partners. | 31/12/2016 | Green | 31/07/2017 | Mark Sturgess |
| Development Management | To ensure issues relating to capacity; performance and customer care are addressed and sustainable improvements are realised | 1. Ensure adequate capacity and skills within the service 2. Ensure performance reporting is robust and reliable 3. External independent assessment of performance reporting is provided 4. Deliver measurable and sustainable improvements in customer care | 1. Team Manager appointed and steps in place to recruit performance manager 2. Further independent audit to be undertaken by Internal Audit in 2017 3. Performance measures in place and scrutiny and review processes in place 4. Next stage to review quality of outcomes on planning decisions and implement new ICT system. | 31/07/2017 | Green | | Mark Sturgess |
| Strategic Programme Delivery | An extensive capital programme has been agreed and we therefore need to ensure that robust and appropriate governance arrangements are implemented to oversee its delivery and financial management governance and other strategic considerations e.g. stakeholder engagement are adequate to support complex change | 1. Establish regular monitoring via Entrepreneurial Board. 2. Report to Members via Quarterly Finance Monitoring reports 3. Ensure each project follows the project management framework 4. Exception reporting through Progress & Delivery reports of projects not performing as expected 5. Annual review as part of year end closedown | 1. Entrepreneurial Board in place with ToR. 2. Progress & Delivery and Quarterly Finance Monitoring reports in place. 3. Project methodology review undertaken and adherence monitored. 4. Review of Boards undertaken with emphasis on delivery of key strategic programmes in support of Corporate Plan delivery | 31/07/2017 | Green | | Ian Knowles |
| Information Governance & Security | To ensure that appropriate controls and policies are in place to provide on-going mitigation for the Council against the risk of cyber-crime and/or leakage of data and information | 1. Implement revised Information Governance Strategy 2. Refresh Information Security Policy 3. Develop and deliver training programme 4. Achieve PSN compliance 5. Follow-up ICT Incident Mgt Audit to be conducted Q3. | 1. Strategy drafted. 2. Work underway to revise Security Policy with supporting processes. 3. DPA training completed. Further elements planned. 4. PSN work planned for 2016/17. 5. ICT Incident Mgt Audit underway. | 31/07/2017 | Green | | Ian Knowles |
| Intelligent Clienting | To address the recognised issues across the CBL partnership and develop improved processes for customers and to review similar areas where good practice exists and apply learning to similar circumstances across the organisation | 1. Improve effectiveness of nominations through CBL 2. Improve effectiveness of CBL partnership 3. Address issues relating to the CBL IT system 4. Strengthen CBL related contractual arrangements 5. Formalise CBL recharge arrangements 6. Improve quality of Housing register data 7. Formalise Housing Register related performance monitoring 8. Introduce Nominations and CBL Performance Monitoring 9. Request Internal Audit review of subject matter | 1. Weekly monitoring in place undertaken by a post jointly funded by ACIS. 2. Review underway of ToR of CBL partnership using guidance set out in WLDC ACoP. 3. Legal requirements of CBL partnership under review. 4. IT system rebuilt and in test phase. Alternative arrangements also being explored. 5. Sampling of case data undertaken by monitoring officer. 6. Performance measures regularised and monitoring process in place 7. Audit to commence Q3 16/17 | 31/07/2017 | Green | | Mark Sturgess |
| Selective Licensing | To review the implementation, monitoring and initial performance of the selective licensing project in the Gainsborough South West Ward. | 1. To deliver a selective licensing scheme in the SWW of Gainsborough | 1. Scheme implemented from 18/7/16 2. Communication with landlords underway and on-going 3. Enforcement to commence from 01/01/17 4. Scheme underway; application deadline of 01/12/16. 570 licenses applied via Homesafe. Ten licenses applied for via the Council. Fifty exemption applications. 750 properties within the scheme. | 31/07/2017 | Green | | Mark Sturgess |



GA.45 16/17

**Governance and Audit
Committee**

17 January 2017

H

Subject: Members Code of Conduct and Operating Procedures for Early Consultation

Report by:

Ian Knowles
Director of Resources (S151)

Contact Officer:

Alan Robinson
Monitoring Officer
01427 676509
Alan.robinson@west-lindsey.gov.uk

Purpose / Summary:

This report presents a revised Members' Code of Conduct and Operating Procedures for early Consultation purposes, following initial consideration by the Standards Sub-Committee.

RECOMMENDATION(S): That

- (a) Members review and make comment on the revised Code of Conduct and Operating Procedures;**
- (b) That the Committee's comment's be collated and shared with the Standards Sub-Committee, prior to the document being released for wider consultation**

IMPLICATIONS

Legal:

The content of any code adopted under the Localism Act is a matter for each local authority to determine subject only to it being consistent with the seven 'Nolan principles'.

The Code does form part of the Council's constitution and will need approval from Full Council before being implemented.

Financial : FIN/122/17 – none directly arising

Staffing :

None arising from this report.

Equality and Diversity including Human Rights :

None arising from this report

Risk Assessment :

None arising from this report.

Climate Related Risks and Opportunities :

None arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1. Background and Introduction.

1.1 The report and associated appendices, attached at Appendix 1 to this report, were first considered by the Standards Sub-Committee at its meeting on 9 December 2016.

1.2 The Standards Sub-Committee were asked to review its content and make comment thereon.

1.3 The main areas which the Sub-Committee have asked Officers to give further consideration to are: -

- **Confidential Information** - Providing examples for clarity
- **Role of The Ward Member in Parish Council complaints** - this generated significant debate. The general concluding consensus was that the Ward Member should play a role in the early stages due to their local knowledge, but the issue of public perception and bias was acknowledged. Officers have undertaken to give this further consideration.

1.4 The Parish Council representatives on the Standards Sub-Committee have also been asked to review the draft document, in detail and feed through their views from a Parish Council perspective.

1.5 Through the Chairs Briefing process the following points for further consideration were also raised: -

- **Leaving the Room during a debate** – this should be phrased so that the affected Member must not only leave the room, but also be out of sight of those still present.
- **Role of the Ward in Parish Council complaints** – again significant debate, agreed that the Ward Member had a role to play, one mechanism suggested is that all Ward Members would have say 7 days to submit comments in writing, on notification of a complaint, similar to making comment on a planning application
- **Respect and Bullying** – It has been suggested that it should be clearer that for a person to feel disrespected or bullied, they do not need to present themselves, for example, if they are spoken very badly about in their absence, this can legitimately cause rise for complaints from a third party.

2. Next Steps

2.1 The report is now submitted, in its original form, to the Governance and Audit Committee, in order that its Members may have an opportunity to also comment on the first draft.

2.2 It is intended that these comments together with those already made, will be collated and re-submitted to the Standards Sub-Committee, for further consideration.

- 2.3 It is then intended to undertake more formal consultation, on the arising document, with: -
- the Core Management Team,
 - Parish Councils
 - District Councillors
 - The public (via the website)
- 2.4 Following consultation, the final proposed Code and Operating Procedures will be submitted to the Governance and Audit Committee for further consideration and subsequent adoption by Council in May 2017.



**APPENDIX 1
SSC.02 16/17**

Standards Sub Committee

9 December 2016

Subject: Code of Conduct Review and Operating Procedures

Report by:

Director of Resources

Contact Officer:

Alan Robinson
Monitoring Officer
01427 676509
Alan.robinson@west-lindsey.gov.uk

Katie Coughlan
Governance and Civic Officer
01427 676594
Katie.coughlan@west-lindsey.gov.uk

Purpose / Summary:

To present a revised Members' Code of Conduct and Operating Procedures for Consultation purposes, including supporting data analysis and rationale for change.

RECOMMENDATION(S): that

- (a) Members review and make comment on the revised Code of Conduct and Operating Procedures;**
- (b) agree that consultation be undertaken with the Core Management Team, Parish Councils and District Councillors on the revised Code of Conduct and Operating Procedures;**
- (c) that following consultation, the proposed Code and Operating Procedures be submitted to the Governance and Audit Committee for further consideration and subsequent adoption by Council in May 2017;**

(d) Officers are requested to report at least annually to this Committee the number, nature and outcome of complaints received under the Code of Conduct.

IMPLICATIONS

Legal:

The content of any code adopted under the Localism Act is a matter for each local authority to determine subject only to it being consistent with the seven 'Nolan principles'

Financial :

Staffing :

Equality and Diversity including Human Rights :

NB: Please explain how you have considered the policy's impact on different groups (for example: young people, elderly, ethnic minorities, LGBT community, rural residents, disabled, others).

Risk Assessment :

Climate Related Risks and Opportunities :

Title and Location of any Background Papers used in the preparation of this report:

*Wherever possible please provide a hyperlink to the background paper/s
If a document is confidential and not for public viewing it should not be listed.*

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

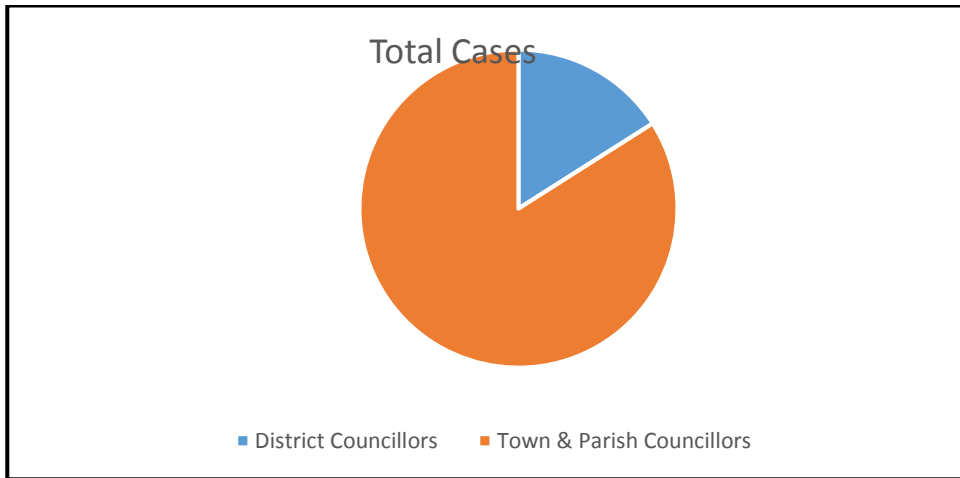
No

1 Background and Introduction

- 1.1 The Council introduced its current Code of Conduct and Operating Procedures in July 2012 in response to the requirements of the Localism Act 2011, which saw the abolition of the Standards Board regime and all the rules under it.
- 1.2 A review of the Code has not been undertaken since its introduction in 2012 and having now worked within its requirements for over four years it would seem appropriate to do so.
- 1.3 The content of any Code adopted under the Localism Act is a matter for each local authority to determine subject only to it being consistent with the seven 'Nolan Principles' and different authorities will quite legitimately come to a range of views about the content of their Code.
- 1.4 Having worked with our current Code for around four years, it has become apparent that the general public, Officers and Councillors alike are of the view that these principles do not go far enough.
- 1.5 The Localism Act does not prevent us from including further provisions on our Members and in light of the nature of the complaints that have been received during the period, we would recommend that general obligations **relating to respect, bullying, intimidation and the disclosing of confidential information** be incorporated in our Code of Conduct.
- 1.6 It is also important that all Codes should contain a sufficient level of detail to allow allegations of misconduct or inappropriate behaviour to be properly assessed.
- 1.7 Although a 'minimalist' approach may appear superficially attractive this does not engender confidence amongst citizens that conduct issues will be addressed appropriately.
- 1.8 The Act requires local authorities to ensure that Elected Members maintain high standards of conduct. A sound and robust ethical framework is a key component of effective governance arrangements and this can be demonstrated by the adoption of robust, open and transparent arrangements for dealing with allegations of misconduct.

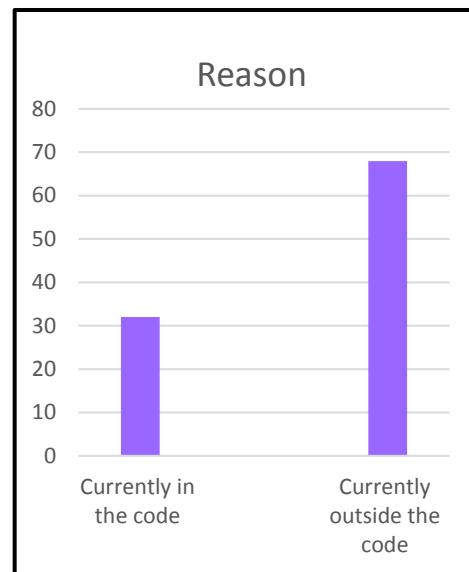
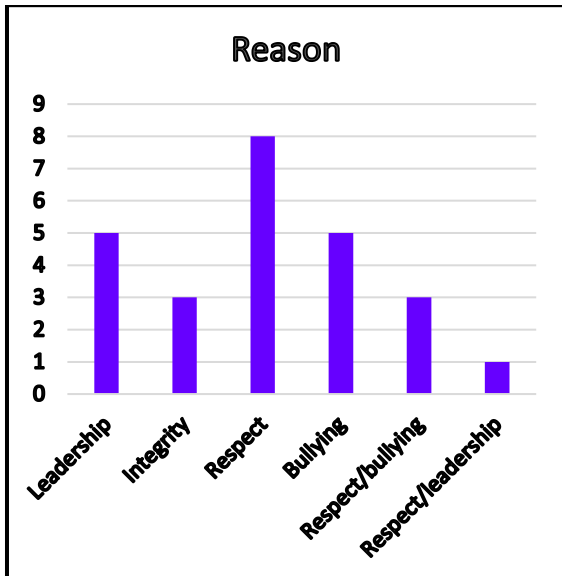
2. Summary of Number, Nature and Outcome of Complaints between the Period 1 October 2015 – 30 September 2016

- 2.1 During the period 1 October 2015 – 30 September 2016, there has been a total of 25 individual complaints. Four made against District Councillors and 21 made against Parish Councillors. This is shown in percentage terms in the chart below:



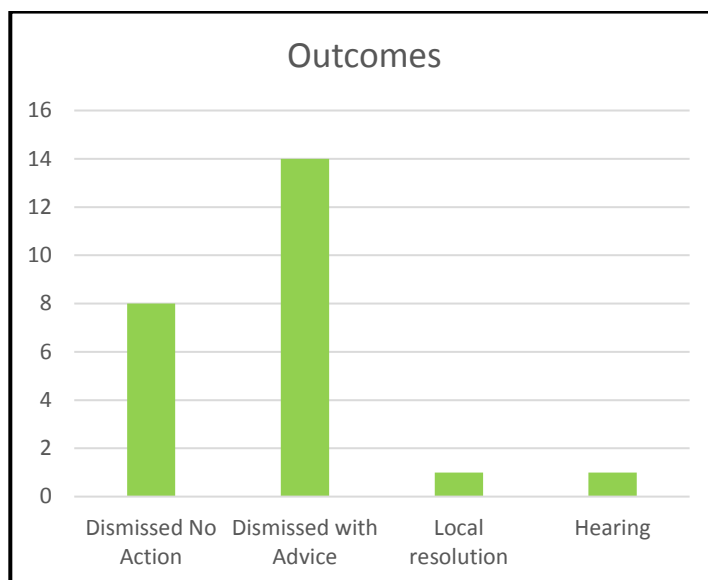
2.2 Of these, only two complaints have led to a formal investigation.

2.3 The reasons cited by the complainants when initially making the complaint are set out below:



2.4 As the current Code of Conduct in force does not have provisions included relating to bullying and respect, a number of complaints fell outside of the Code's current remit, shown above.

2.5 In such cases, dependent upon the issues contained with the complaint, the Monitoring Officer will often seek to take informal action and give guidance about expected behaviour. The graph below, shows the types of actions which were taken in response.



3 Proposed Amendments

3.1 General Comments

3.1.1 It has become normal practice when policies are reviewed to include for ease of reference an additions/ amendments/ deletions sheet. In this case the new Code is written very differently so this was not deemed appropriate on this occasion. The Code has been reviewed to ensure it is clearer and easier to understand. The proposed revised Code is attached at Appendix A. The Code currently in force is attached at Appendix B for comparison.

3.1.2 It is now written in a more appropriate language following a similar style to a number of other local authorities and has been split into three sections namely: -

- Part 1: The Principles
- Part 2: General Provisions
- Part 3: Interests and Notifications of Interest

3.1.3 The list of example behaviours previously included has been removed from the main body of the Code and attached as an Appendix (Appendix A of the proposed Code), again to make the document an easier read. It is made clear in the main body of the code that these are examples of how Elected Members will display behaviour in accordance with these Principles, as opposed to an exhaustive list.

3.1.4 The Code is also now easier to interpret and assess behaviour against.

3.1.5 The revised Code aims to make clearer the expectations on all Members. Arguably, all the proposed revisions are in accordance with how the majority of Elected Members currently behave and conduct themselves, and how we would all wish to be treated in our daily life but these have not previously been documented and therefore were not enforceable under the Code.

3.2 Part 1 – The Principles

3.2.1 This section sets out the seven Nolan Principles. The wording remains the same as set out in the previous Code agreed in July 2012 and places no further requirements on Members.

3.2.2 However, the words “holders of public office” have been replaced with “You” – increasing ownership of the Principles. And the words “should” with “must”. We consider this demonstrates a greater commitment to uphold the Principles

3.3 Part 2 – General Provisions

3.3.1 This is a new section within the Code and comprises: -

- An Introduction and Interpretation
- Scope
- New General Obligations on Members relating to respect, bullying, harassment, confidential information and use of resources

3.3.2 Introduction / Interpretation and Scope

It is hoped that the inclusion of an Introduction / Interpretation and Scope Section within the Code offers further clarity and clearly sets out to Members and the public when the Code of Conduct is engaged and can be applied. This is aimed at increasing understanding. This fact used to be clearly set out in the Authority’s previous Code and the wording is taken from there. Similar wording is used by other local authorities, and within Codes that are deemed exemplar models, such as Melton Mowbray. The section now also draws Members’ attention to the fact that failure to abide by the Code in certain scenarios is now a criminal offence (since the introduction of the Localism Act), and those such offences have been compiled as a further Appendix to the Code (Appendix B of the proposed Code).

3.3.3 General Obligations

This section arguably places three new requirements for Members to adhere to these being :-

- Respect / Bullying and Harassment
- Confidential Information; and
- Use of Resources

3.3.4 Again, this is how the majority of Elected Members currently behave when conducting their business and how we would all wish to be treated in our daily life, but they have not previously been documented and therefore were not enforceable under the Code.

3.3.5 Such matters as confidential information and the use of resources are covered in other Codes and Protocols within the Council's Constitution, so Members are familiar with the expectations but they would become enforceable if part of the Elected Members' Code of Conduct.

3.3.6 The wording which has been used is similar to other local authorities and was used in all pre 2011 codes.

3.4 **Part 3 - Interests / Notification of / Participation**

3.4.1 The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 sets out the Statutory requirements placed upon Members regarding their interests.

3.4.2 In 2012 this legislation was only issued the day before, new Codes had to come into force and therefore a large number of local authorities only implemented the minimum statutory requirements.

3.4.3 As previously advised, The Localism Act did give authorities permission to include further local provision relating to interests and left it to local discretion as to whether Members were asked to leave the room if they had a disclosable pecuniary interest.

3.4.4 West Lindsey's Code only currently includes a direct lift from this legislation (see Appendix of Current Code (Appendix B)) and this is displayed in a very un-user-friendly format. In 2012 no local provision interests were introduced or addressed through the Code, nor was the issue of leaving the meeting addressed.

3.4.5 The proposed revised Code now includes local provision and does place a requirement on Members to leave the room if they have either a disclosable pecuniary interest (as set out in Statute and included as Appendix B in the new proposed Code) or a local provision prejudicial interest. If this change is accepted, Council Procedure rules will need to be amended to reflect the requirement to leave the room, in such circumstances. It can be argued that failure to leave the room will diminish confidence in open decision making and would become enforceable if part of the Elected Members Code of Conduct.

3.4.6 Whilst arguably the contents of this part of the Code have not fundamentally changed, the largest change does come from the

introduction of what have been termed local provision prejudicial interests.

- 3.4.7 These would be most applicable when a Councillor was considering such matters as licensing or planning applications. Whilst the statutory disclosable pecuniary interest only asks Councillors to declare interests relating to themselves or their spouse, the scope for relevant person, in the case of local provision prejudicial interests has been extended to include not only spouse but any member of their immediate family, this being, mother, father, sister, brother, son and daughter.
- 3.4.8 So for example, if you were a Member of the planning committee and your mother had a planning application, under the new Code you would be deemed to have a local provision prejudicial interest and be required to leave room. Whilst most Councillors would operate that way, this has never been laid down as a clear enforceable expectation since the introduction of the 2012 Code.
- 3.4.9 This is a similar approach to what was in force prior to the Localism Act and is arguably how most Councillors have continued to conduct themselves, so Members are familiar with the expectations but they would become enforceable if part of the Elected Members' Code of Conduct.
- 3.4.10 This wider approach supports good ethical governance and probity in areas which have a high risk of challenge. Probity in Planning also supports this approach, and advises that conflicted Members leaving the room is a must.
- 3.4.11 A number of other Councils have extended their Codes to make such local provision including the need to leave the room.

4 Gifts and Hospitality

- 4.1 Gifts and Hospitality were not mentioned within the 2012 Code. Since that time Officers have been operating by previously agreed rules laid out in the pre 2012 codes. This matter is now dealt with in the revised Code and places similar requirements on Members to those expected by other local authorities

5 Amendments to Operating Procedure

- 5.1 The revised Operating Procedures are attached at Appendix 3. There has been little revision to their content.
- 5.2 The two main areas are: -
- Making it clear throughout the document which stages of the process are not within the public domain.

- Removing consultation with the Ward Member (for Parish Council complaints)

5.3 Arguably the latter may be viewed by Members as a significant change, however this change is recommended from experience of having operated within the procedure and from feedback received and concerns raised.

5.4 Consultation with the Ward Member was originally included in the hope that Ward Members would provide some local context to complaints received. They are the eyes and ears on the ground and are often involved in democracy at the grass roots level. It was therefore intended to ensure that actions which were appropriate to that parish, within their context, were taken. Whilst this has been the case with a large number of the complaints we have received, it has also been a point of contention and concern for both complainants and Subject Members on a number of occasions. It has also given rise to allegations regarding conflict of interest and bias.

5.5 It is therefore proposed that the Ward Member consultation be removed from the process, and consultation only be with the Independent Member.

5.6 All relevant Ward Members will be notified when a complaint is made, and when a first stage decision has been made (dismissed or other action required). This will be in confidence. Ward Members will then be free to take part in any complaints which reach a more formal stage, whether this be by giving a statement to any investigating Officer or choosing to act as an advocate for a Parish Councillor who is the subject of an allegation.

5.7 It is still proposed to include consultation with the relevant Group Leader, regarding allegations made against District Councillors. The reason being that the more mature political group structure seen at second tier Government, gives Group Leaders arguably more leverage to deal with issues than the Monitoring Officer, particularly given the very limited imposable sanctions, offered by legislation.

6 Enforcement of the Code

6.1 This Code will be enforced with the ethos of good governance, openness and transparency underpinning any decisions made. Local and informal resolution will always be used wherever possible. This is particularly important due to the imposable sanction being limited. Complaints will only be released into the public domain, when all forms of local and informal resolutions have failed.

6.2 Complaints regarding respect, bullying and harassment, will be considered within a threshold of tolerance, with less tolerance applied for complaints regarding behaviour towards the public or very public acts.

- 6.3 The Code aims to respect a Councillors' right to a private life, however, it is important to understand that the public, particularly in small communities, will never see their elected Members as off duty.
- 6.4 The Code is not intended to stifle the rough and tumble of political debate, nor will malicious, petty or politically or personally motivated complaints be pursued
- 6.5 Nor is the Code intended to prevent involvement at a local level. The new requirement regarding interests relating to planning and licensing would not be applicable at a Parish Council level (highlighted in yellow on the proposed Code), as they are not the decision makers. It is important that local communities can participate at a local level, as this is often the driver for them first engaging in local democracy.

7 Recommendations

On that Basis Members are asked to

- (a) review and make comment on the revised Code of Conduct and Operating Procedures;
- (b) agree that consultation be undertaken with the Core Management Team, Parish Councils and District Councillors on the revised Code of Conduct and Operating Procedures;
- (c) that following consultation, the proposed Code and Operating Procedures be submitted to the Governance and Audit Committee for further consideration and subsequent adoption by Council in May 2017;
- (d) Officers are requested to report at least annually to this Committee the number, nature and outcome of complaints received under the Code of Conduct.



APPENDIX A

West Lindsey District Council

Members' Code of Conduct

WEST LINDSEY DISTRICT COUNCIL MEMBERS' CODE OF CONDUCT

FOR ELECTED AND CO-OPTED MEMBERS OF WEST LINDSEY DISTRICT COUNCIL

Part 1: The Principles

As a member or co-opted member of West Lindsey District Council, you have a responsibility to represent the community and work constructively with your fellow members, our staff and partner organisations to secure better social, economic and environmental outcomes for all.

When acting in this capacity you must have regard to the following principles in carrying out your duties, in accordance with the requirements of the Localism Act 2011 (The Act) :-

1. Selflessness.
2. Integrity.
3. Objectivity.
4. Accountability.
5. Openness.
6. Honesty.
7. Leadership.

More specifically that means observing the following rules of behavior to maintain public confidence in this Authority :-

Principle 1 – Selflessness

You must act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

Principle 2 – Integrity

You must not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

Principle 3 – Objectivity

When carrying out your public duties / business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, you must make all choices, on merit.

Principle 4 – Accountability

You are accountable for your decisions to the public and you must co-operate fully with whatever scrutiny is appropriate to your office.

Principles 5 and 6 – Openness and Honesty

You must be as open as possible in respect of all your decisions and actions and the decisions and actions of your authority and should be prepared to give reasons for those decisions and actions. You should only restrict information when the wider public interest clearly demands it (see general obligation 4 also).

You must declare any private interests, both pecuniary and non-pecuniary, that relate to your public duties and must take steps to resolve any conflicts arising in a way that protects the public interest, including registering and declaring interests in a manner conforming with the procedures set out in Part 3 of this Code.

Principle 7 – Leadership

You must promote and support and promote the above principles by leadership and example.

In addition West Lindsey District Council's Code also includes local provision relating to

1. Respect Bullying and Harassment
2. Confidential Information
3. Use of Resources

The requirements relating to these aspects are set out in more detail in Part 2 of this Code under General Obligations.

These principles articulate the fundamental values of public service that underpin the conduct of members. The following provisions of the Code of Conduct for members are derived from those principles and provide a set of enforceable minimum standards for the conduct that is expected of members and co-opted members of the authority when they are acting in that capacity.

Examples, but not an exhaustive list, of how Elected Members will display behavior in accordance with these principles is set out in Appendix A to the Code.

Part 2: General Provisions

Introduction and Interpretation

1. (1) This Code applies to **you** as a member of an authority.
- (2) You should read this Code together with the general principles set out above.
- (3) It is your responsibility to comply with the provisions of this Code.
- (4) In this Code –
“meeting” means any meeting of –
 - (a) the authority;
 - (b) Any of the authority’s or its committees, sub-committees, joint committees, subcommittees, or area committees; “member” includes a co-opted member.

Scope

2. (1) You must comply with this Code whenever you –
 - (a) conduct the business of your authority (which, in this Code, includes the business of the office to which you are elected or appointed);
 - (b) act, or claim to act or give the impression you are acting as a representative of your authority, and references to your official capacity are construed accordingly.
- (2) Where you act as a representative of your authority:-
 - (a) on another relevant authority, you must, when acting for that other authority, comply with that other authority’s code of conduct; or
 - (b) on any other body, you must, when acting for that other body, comply with your authority’s code of conduct, except and insofar as it conflicts with any other lawful obligations to which that other body may be subject.
- (3) Members should note that the Act creates specific criminal offences in relation to disclosable pecuniary interests (disclosable pecuniary interests are contained in Appendix B together with the offences)

General Obligations

3 Respect, Bullying and Harassment

- (1) You must treat others with respect.

Councillors at all times must show respect to each other staff and members of the public and engage with them in an appropriate manner and one that underpins the mutual respect that is essential for local government. Councillors may not always agree with the political views of their member colleagues but they will respect the right for those views to be held.

- (2) You must not –
- (a) do anything which may cause your authority to breach any of the equality enactments (as defined in section 33 of the Equality Act 2006);
 - (b) bully any person;
 - (c) intimidate or attempt to intimidate any person who is or is likely to be –
 - (i) a complainant,
 - (ii) a witness, or
 - (iii) involved in the administration of any investigation or proceedings, in relation to an allegation that a member (including yourself) has failed to comply with his or her authority's code of conduct; or
 - (d) do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, your authority.

Note: Allegations made under this code relating to respect, bullying and harassment will be assessed within a threshold. This code is not designed to stifle the rough and tumble of political debate or as a tool to resolve personal conflicts.

4. Confidential information

You must not –

- (a) disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where –
 - (i) you have the consent of a person authorised to give it;
 - (ii) you are required by law to do so;
 - (iii) the disclosure is made to a third party for the purpose of

obtaining professional advice provided that the third party agrees not to disclose the information to any other person; or

(iv) the disclosure is: -

(aa) reasonable and in the public interest; and

(bb) made in good faith and in compliance with the reasonable requirements of the authority; or

(b) prevent another person from gaining access to information to which that person is entitled by law.

5. Use of Resources

You –

(a) must not use or attempt to use your position as a member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage; and

(b) must, when using or authorising the use by others of the resources of your authority –

(i) act in accordance with your authority's reasonable requirements;

(ii) ensure that such resources are not used improperly for political purposes (including party political purposes); and

(c) must have regard to any applicable Local Authority Code of Publicity made under the relevant legislation in existence at the time.

Part 3: Interests

Notification of Interests

6. (1) You must, within 28 days of the adoption of this Code or of taking office as a member or co-opted member, notify the Monitoring Officer of any disclosable pecuniary interest as defined by regulations made by the Secretary of State.

Those which are covered by these regulations are listed at Appendix B of this code.

[Note: the regulations currently in force apply where the disclosable pecuniary interest is yours, your spouse's or civil partner's or is the pecuniary interest of somebody with whom you are living as a husband or wife or as if you were civil partners.]

- (2) If a disclosable pecuniary interest, as defined above, has not been entered into the authority's Register upon notification under paragraph 6 (1), you must disclose the interest to any meeting of the authority at which you in any matter being considered and whether the matter is not a 'sensitive interest'. Following any such disclosure of an interest, you must notify the Monitoring Officer within 28 days beginning with the date of disclosure.
- (3) In addition to the disclosable pecuniary interests which are the subject of paragraph 6 (1) above, you must, within 28 days of:-
- (a) this code being adopted by or applied to the authority; or
 - (b) your election or appointment to office (where that is later),
- notify the Monitoring Officer in writing of the details of your other personal interests, where they fall within the descriptions set out in paragraph 8 below for inclusion in the Register of Interests.
- (4) You must, within 28 days of becoming aware of any new interest or change to any interest to be registered under the requirements of paragraphs 6 (1) – (3), notify the Monitoring Officer of the details of that new interest or change.

Definition of Personal Interest

7. (1) You have a personal interest in any business of the authority where either:-
- (a) it relates to or is likely to affect –
 - (i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;
 - (ii) any body –
 - (aa) exercising functions of a public nature; (bb) directed to charitable purposes; or
 - (cc) one of whose principle purposes including the influence of public opinion or policy (including any political party or trade union);
- of which you are a member or in a position of general control
- or management.

or

- (b) a decision in relation to that business might reasonably be regarded as affecting your wellbeing or financial position or the wellbeing or financial position of a relevant person to a greater extent than the majority of other council tax payers, ratepayers, or inhabitants of the electoral division or ward, as the case may be, affected by the decision.
- (2) For the purposes of paragraph 7 (1) (b), a relevant person is –
- a member of your immediate family, namely your mother, father, sister, brother; son daughter or
 - (a) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
 - (b) any person or body in whom such persons have a beneficial interest and a class of securities exceeding the nominal value of £25,000 or one hundredth of the total issued share capital of that body.

Definition of Prejudicial Interests

8. The Council has decided that in addition to disclosable pecuniary interests referred to in paragraph 6 (1) above, you also have a prejudicial interest if you have a personal interest in any business of the authority where the interest is one which a member of the public with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest and where that business:-

- (a) affects your financial position or the financial position of a person or body described in paragraph 7; and
- (b) relates to the determination of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph 7.

Disclosure of Interests

9. (1) Subject to sub-paragraph (2) where you have a personal interest in any business of your authority and where you are aware or ought reasonably to be aware of the existence of the personal interest and you attend a meeting of the authority where the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of the meeting and prior to any discussion of the relevant item, or as soon as the interest becomes apparent to you. **You can remain in the meeting, take part in the debate and vote on the matter.**
- (2) Where you have a personal interest, but, by virtue of paragraph 14 sensitive information relating to it is not registered in your authority's

Register of Members Interests, you must indicate to the meeting that you have a personal interest, but need not disclose the sensitive information to the meeting.

Non-Participation in Case of Disclosable Pecuniary Interest (Detailed in Appendix B)

10. (1) If you are present at any meeting of the authority, and you have a disclosable pecuniary interest in any matter to be considered or being considered at the meeting:-
- (a) **you may not participate** in any discussion of the matter at the meeting.
 - (b) **you may not participate** in any vote taken on the matter at the meeting.
 - (c) if the interest is not registered, you must disclose the interest to the meeting.
 - (d) if the interest is not registered and is not the subject of a pending notification, you must notify the Monitoring Officer of the interest within 28 days.
- (2) **In addition, you are required to leave the room where the meeting is held while any discussion or voting takes place.**

Non participation in case of other (local provision) prejudicial interests (those which arrive from a personal interest but effect your or a relevant persons financial position)

11. (1) Subject to paragraphs (2) and (3), where you have a prejudicial interest in any business of your authority –
- (a) **you may not** participate in any discussion of the matter at the meeting.
 - (b) **you may not** participate in any vote taken on the matter at the meeting.
 - (c) if the interest is not registered, you must disclose the interest to the meeting.
 - (d) if the interest is not registered and is not the subject of a pending notification, you must notify the Monitoring Officer of the interest within 28 days.

[Note: In addition you are required to leave the room where the meeting is held while any discussion or voting takes place.

- (2) Where you have a prejudicial interest in any business of your authority, you may attend a meeting but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise, and you leave the room where the meeting is held immediately after making representations, answering questions or giving evidence.
- (3) There are some decisions that affect every Member, you may attend a meeting and vote on a matter where you have a prejudicial interest that relates to the functions of your authority in respect of:-
- (a) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;
 - (b) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;
 - (c) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;
 - (d) an allowance, payment or indemnity given to members;
 - (e) any ceremonial honour given to members; and
 - (f) setting council tax or precept under the Local Government Finance Act 1992.
 - (g) an interest arising from your membership of another local authority or parish council.

Dispensations

12. The Governance and Audit Committee may grant you a dispensation, but only in limited circumstances, to enable you to participate and vote on a matter in which you have a prejudicial interest, including a disclosable pecuniary interest.

Register of Interests

13. Any interest notified to the Monitoring Officer will be included in the Register of Interests. A copy of the Register will be available for public inspection and will be published on the authority's website.

Sensitive Interests

14. Where you consider that disclosure of the details of an interest could lead to you, or a person connected with you, being the subject of violence or intimidation, and the Monitoring Officer agrees, if the interest is entered on the Register, copies of the Register that are made available for inspection and any published version of the Register will exclude details of the interest but may state that you have an interest, the details of which are withheld.

Gifts and Hospitality

15. The Council has determined that as a matter of good practice you must also declare to the Monitoring Officer within 28 days the interest of any person from whom you have received, in connection with your official duties as a member, a gift or hospitality with an estimated value of at least £50.

APPENDIX A

As a Member of West Lindsey District Council, my conduct will in particular address the statutory principles of the code of conduct by:

- Championing the needs of residents – the whole community and in a special way my constituents, including those who did not vote for me – and putting their interests first.
- Dealing with representations or enquiries from residents, members of our communities and visitors fairly, appropriately and impartially.
- Not allowing other pressures, including the financial interests of myself or others connected to me, to deter me from pursuing constituents' casework, the interests of West Lindsey or the good governance of the authority in a proper manner.
- Exercising independent judgement and not compromising my position by placing myself under obligations to outside individuals or organisations who might seek to influence the way I perform my duties as a member/co-opted member of this authority.
- Listening to the interests of all parties, including relevant advice from statutory and other professional officers, taking all relevant information into consideration, remaining objective and making decisions on merit.
- Being accountable for my decisions and co-operating when scrutinised internally and externally, including by local residents.
- Contributing to making this authority's decision-making processes as open and transparent as possible to enable residents to understand the reasoning behind those decisions and to be informed when holding me and other members to account but restricting access to information when the wider public interest or the law requires it.
- Behaving in accordance with all our legal obligations, alongside any requirements contained within this authority's policies, protocols and procedures, including on the use of the Authority's resources.
- Valuing my colleagues and staff and engaging with them in an appropriate manner and one that underpins the mutual respect between us that is essential to good local government.
- Always treating people with respect, including the organisations and public I engage with and those I work alongside.
- Providing leadership through behaving in accordance with these principles when championing the interests of the community with other organisations as well as within this authority.

Disclosable Pecuniary Interests prescribed by The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

Disclosable pecuniary interests include not only your interests but also the interests of your spouse or civil partner, a person with whom you are living as husband or wife or a person with whom you are living as if they were a civil partner, so far as you are aware of the interests of that person.

| <i>Subject</i> | <i>Prescribed description</i> |
|--|--|
| 1. Employment, office, trade, profession or vacation | Any employment, office, trade, profession or vocation carried on for profit or gain. |
| 2. Sponsorship | <p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992(1).</p> |
| 3. Contracts | <p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p> |
| 4. Land | Any beneficial interest in land which is within the area of the relevant authority. |

5. Licences Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
6. Corporate tenancies Any tenancy where (to M's knowledge)—
- (a) the landlord is the relevant authority; and
 - (b) the tenant is a body in which the relevant person has a beneficial interest.
7. Securities Any beneficial interest in securities of a body where—
- (a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and
 - (b) either—
 - (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

. It is a criminal offence:-

- i. to fail to register a Disclosable Pecuniary Interest (DPI) you are aware of within 28 days of your election or re-election;
- ii. to take part in the debate or vote at any meeting where you have a registered or unregistered DPI;
- iii. to fail to declare at a meeting and/or to take part in the debate or vote, if you are aware you have a DPI which is not yet registered or notified to the Monitoring Officer;
- iv. if you have declared an unregistered DPI at a meeting, to fail to register that within 28 days of that declaration;
- v. to provide false or misleading information in relation to any registration or to be reckless as to its accuracy;
- vi. to take any steps or further action on a matter in which you have a DPI other than referring it elsewhere;

in each case without reasonable excuse

Glossary of Terms

| | |
|---------------------------------------|---|
| Member: | a person elected or co-opted to office |
| Act | refers to the Localism Act 2011 |
| Meeting | a formally arranged gathering, attended by you in Capacity |
| Disclosable Pecuniary Interest | as defined in statute and set out in appendix B to this Code. Only relate to you or your spouse Criminal sanctions applicable |
| Prejudicial Interest | local provision – see section 8, most likely to occur in planning and licensing matters (as the wording relates to the granting of a license or application) |
| Personal Interest | See Section 7 |
| Relevant Person | your spouse, mother, father, sister brother son daughter |

Appendix B**West Lindsey District Council****Members Code of Conduct**

As a member or co-opted member of West Lindsey District Council, I have a responsibility to represent the community and work constructively with our staff and partner organisations to secure better social, economic and environmental outcomes for all.

In accordance with the Localism Act provisions, when acting in this capacity I am committed to behaving in a manner that is consistent with the following principles to achieve best value for our residents and maintain public confidence in this authority.

SELFLESSNESS: Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

INTEGRITY: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

ACCOUNTABILITY: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

LEADERSHIP: Holders of public office should promote and support these principles by leadership and example.

As a Member of West Lindsey District Council, my conduct will in particular address the statutory principles of the code of conduct by:

- Championing the needs of residents – the whole community and in a special way my constituents, including those who did not vote for me – and putting their interests first.
- Dealing with representations or enquiries from residents, members of our communities and visitors fairly, appropriately and impartially.
- Not allowing other pressures, including the financial interests of myself or others connected to me, to deter me from pursuing constituents' casework, the interests of the [county][borough][Authority's area] or the good governance of the authority in a proper manner.
- Exercising independent judgement and not compromising my position by placing myself under obligations to outside individuals or organisations who might seek to influence the way I perform my duties as a member/co-opted member of this authority.
- Listening to the interests of all parties, including relevant advice from statutory and other professional officers, taking all relevant information into consideration, remaining objective and making decisions on merit.
- Being accountable for my decisions and co-operating when scrutinised internally and externally, including by local residents.
- Contributing to making this authority's decision-making processes as open and transparent as possible to enable residents to understand the reasoning behind those decisions and to be informed when holding me and other members to account but restricting access to information when the wider public interest or the law requires it.
- Behaving in accordance with all our legal obligations, alongside any requirements contained within this authority's policies, protocols and procedures, including on the use of the Authority's resources.
- Valuing my colleagues and staff and engaging with them in an appropriate manner and one that underpins the mutual respect between us that is essential to good local government.
- Always treating people with respect, including the organisations and public I engage with and those I work alongside.
- Providing leadership through behaving in accordance with these principles when championing the interests of the community with other organisations as well as within this authority.

The Act further provides for registration and disclosure of interests and in West Lindsey District Council, this will be done as follows:

1 Notification of interests

(1) In addition to the disclosable pecuniary interests notifyable under the Localism Act 2011, you must, within 28 days of—

(a) this Code being adopted by or applied to your authority; or

(b) your election or appointment to office (where that is later),

notify the Monitoring Officer in writing of the details of your other personal interests, where they fall within the following descriptions, for inclusion in the register of interests.

(2) You have a personal interest in any business of your authority where either—

(a) it relates to or is likely to affect—

(i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;

(ii) any body—

(aa) exercising functions of a public nature;

(bb) directed to charitable purposes; or

(cc) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union), of which you are a member or in a position of general control or management;

(3) You must, within 28 days of becoming aware of any new interest or change to any interest registered under paragraph (1), or as a disclosable pecuniary interest notify the Monitoring Officer of the details of that new interest or change.

2 Disclosure of interests

(1) Subject to sub-paragraphs (2) to (5), where you have a personal interest described in paragraph 1 above or in paragraph (2) below in any business of your authority, and where you are aware or ought reasonably to be aware of the existence of the personal interest, and you attend a meeting of your authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

(2) (A) You have a personal interest in any business of your authority where a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a *relevant person* to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral division or ward, as the case may be, affected by the decision;

(B) In sub-paragraph (2)(A), a *relevant person* is—

- (a) a member of your family or any person with whom you have a close association; or
- (b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- (c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
- (d) any body of a type described in paragraph 1(2)(a)(i) or (ii).

(3) Where you have a personal interest in any business of your authority which relates to or is likely to affect a person described in paragraph 1(2)(a)(i) or 1(2)(a)(ii)(aa), you need only disclose to the meeting the existence and nature of that interest when you address the meeting on that business.

(4) Where you have a personal interest but, by virtue of paragraph 4, sensitive information relating to it is not registered in your authority's register of members' interests, you must indicate to the meeting that you have a personal interest, but need not disclose the sensitive information to the meeting.

(5) Where you have a personal interest in any business of your authority and you have made an executive decision in relation to that business, you must ensure that any written statement of that decision records the existence and nature of that interest.

3 Register of interests

Any interests notified to the Monitoring Officer will be included in the register of interests. A copy of the register will be available for public inspection and will be published on the authority's website.

4 Sensitive interests

Where you consider that disclosure of the details an interest could lead to you, or a person connected with you, being subject to violence or intimidation, and the Monitoring Officer agrees, if the interest is entered on the register, copies of the register that are made available for inspection and any published version of the register will exclude details of the interest, but may state that you have an interest, the details of which are withheld.

5 Non participation in case of pecuniary interest

(1) Where you have a personal interest in any business of your authority you also have a pecuniary interest in that business where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest and where that business—

(a) affects your financial position or the financial position of a person or body described in paragraph X
;or

(b) relates to the determining of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph.

(2) Subject to paragraph (3) and (4), where you have a pecuniary interest in any business of your authority—

- a) You may not participate in any discussion of the matter at the meeting.
- b) You may not participate in any vote taken on the matter at the meeting.
- c) If the interest is not registered, you must disclose the interest to the meeting.
- d) If the interest is not registered and is not the subject of a pending notification, you must notify the Monitoring Officer of the interest within 28 days.

(3) Where you have a pecuniary interest in any business of your authority, you may attend a meeting but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise and you leave the room where the meeting is held immediately after making representations, answering questions or giving evidence.

(4) Subject to you disclosing the interest at the meeting, you may attend a meeting and vote on a matter where you have a pecuniary interest that relates to the functions of your authority in respect of—

(i) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;

(ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;

(iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;

(iv) an allowance, payment or indemnity given to members;

(v) any ceremonial honour given to members; and

(vi) setting council tax or a precept under the Local Government Finance Act 1992.

(5) Where, as an executive member, you may discharge a function alone, and you become aware of a pecuniary interest in a matter being dealt with, or to be dealt with by you, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter, or seek improperly to influence a decision about the matter.

6 Interests arising in relation to overview and scrutiny committees

In any business before an overview and scrutiny committee of your authority (or of a sub-committee of such a committee) where—

(a) that business relates to a decision made (whether implemented or not) or action taken by the executive or another of your authority's committees, sub-committees, joint committees or joint sub-committees; and

(b) at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph (a) and you were present when that decision was made or action was taken,

You may only attend a meeting of the overview and scrutiny committee for the purpose of answering questions or giving evidence relating to the business, and you must leave the room where the meeting is held immediately after making representations, answering questions or giving evidence.

Note re 1 (1) above;

This note explains the requirements of the Localism Act 2011 (Ss 29-34) in relation to disclosable pecuniary interests.

These provisions are enforced by criminal sanction. They come into force on 1 July.

1 Notification of disclosable pecuniary interests

Within 28 days of becoming a member or co-opted member, you must notify the Monitoring Officer of any 'disclosable pecuniary interests'.

A 'disclosable pecuniary interest' is an interest of yourself or your partner (which means spouse or civil partner, a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners) within the following descriptions:

| <i>Interest</i> | <i>description</i> |
|---|--|
| Employment, office, trade, profession or vacation | Any employment, office, trade, profession or vocation carried on for profit or gain. |
| Sponsorship | Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992. |

| | |
|---------------------|--|
| Contracts | <p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p> |
| Land | <p>Any beneficial interest in land which is within the area of the relevant authority.</p> |
| Licences | <p>Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.</p> |
| Corporate tenancies | <p>Any tenancy where (to M's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p> |
| Securities | <p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p style="margin-left: 40px;">(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p style="margin-left: 40px;">(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p> |

It is a criminal offence to

- Fail to notify the Monitoring Officer of any disclosable pecuniary interest within 28 days of election
- Fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register
- Fail to notify the Monitoring Officer within 28 days of a disclosable pecuniary interest that is not on the register that you have disclosed to a meeting
- Participate in any discussion or vote on a matter in which you have a disclosable pecuniary interest
- As an executive member discharging a function acting alone, and having a disclosable pecuniary interest in such a matter, failing to notify the Monitoring Officer within 28 days of the interest.
- Knowingly or recklessly providing information that is false or misleading in notifying the Monitoring Officer of a disclosable pecuniary interest or in disclosing such interest to a meeting

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



Arrangements for dealing with standards allegations (against a Parish Councillor) under the Localism Act 2011

1 Context

The “Arrangements” set out how you may make a complaint that an elected or co-opted member of a parish council within the area of West Lindsey has failed to comply with the Parish Council’s Code of Conduct. They set out how West Lindsey District Council (WLDC) will deal with allegations of a failure to comply with the Parish Council’s Code of Conduct.

Under Section 28(6) and (7) of the Localism Act 2011, the District Council must have in place “arrangements” under which allegations that a member or co-opted member of a parish council within the authority’s area has failed to comply with that authority’s Code of Conduct can be investigated and decisions made on such allegations.

The arrangements must provide for the authority to appoint at least one Independent Person, whose views must be sought by the authority before it takes a decision on an allegation which it has decided shall be investigated. The Independent Persons views can be sought by the authority at any other stage, or by a member or co-opted member of a parish council against whom an allegation has been made.

2 The Code of Conduct

Each Parish Council has adopted a Code of Conduct. If you wish to inspect a Parish Council’s Code of Conduct, you should inspect any website operated by the Parish Council and request the parish clerk to allow you to inspect the Parish Council’s Code of Conduct.

3 Making a complaint

The Monitoring Officer is a senior officer of WLDC and has statutory responsibility for maintaining the register of members' interests and is responsible for administering the system in respect of complaints of member misconduct.

3.1 In order to ensure that we have all the information which we need to be able to process your complaint, please complete and send us the ~~model~~ complaint form. The complaint form can be downloaded from the authority's website, ~~or and is~~ available on request by telephoning the Monitoring Officer, on 01427 676509.

3.2 ~~We~~The Monitoring Officer will aim to acknowledge receipt of your complaint within 5 working days of receiving it, and will keep you informed of the progress of your complaint. At this point in time, the person complained about will be supplied with a copy of your complaint form. We will also send a copy of the complaint to the Parish Clerk and the Local Ward Member(s) for information only. Please note at this time the information you provide to us will not be made available in the public domain.-

4 Will your complaint be investigated?

The Monitoring Officer will review your complaint received and after consultation with the Independent Person take a decision as to whether it merits formal investigation. This decision will normally be taken within 20 days of receipt of your complaint. Where the Monitoring Officer has taken a decision, you will be informed of the decision, and the reasons for that decision, in writing.

4.1 Where the Monitoring Officer requires additional information in order to come to a decision, he/she may come back to you for such information. Also information may be request from the member against whom your complaint is directed. The Monitoring Officer may also inform the Parish Council of your complaint and seek the views of the Parish Council and/or the Local Ward Member(s), **in confidence**, before deciding whether the complaint merits formal investigation.

4.2 In appropriate cases, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution, known as a local resolution, may involve the member accepting that his/her conduct was unacceptable and offering an apology, or other remedial action suggested by the authority. Where the member or the authority make a reasonable offer of local resolution, but you are not willing to accept that offer, the Monitoring Officer will take account of this in deciding whether the complaint merits formal investigation.

4.3 If your complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

5 How is the investigation conducted?

If the Monitoring Officer decides that a complaint merits formal investigation, an Investigating Officer will be appointed who may be another senior officer of WLDC, an officer of another authority or an external investigator.

- 5.1 The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the nature of your complaint. You will have the opportunity to explain your understanding of events and suggest what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview.
- 5.2 The Investigating Officer would normally write, **in confidence**, to the member against whom you have complained and ask the member to provide his/her explanation of events and to identify what documents he/she needs to see and who needs to be interviewed.
- 5.3 At the end of the Investigating Officer's investigation a draft report will be produced and a copy will be sent, **in confidence**, to you and to the member concerned. You will both be given the opportunity to identify any matter in that draft report which you disagree with or which you consider requires more consideration.
- 5.4 Having received and taken into account of any comments which you may make on the draft report, the Investigating Officer will send a final report to the Monitoring Officer.

6 What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will review the Investigating Officer's report and, if he/she is satisfied that the Investigating Officer's report is sufficient, the Monitoring Officer will write to you and to the member concerned and to the Parish Council, notifying you that he/she is satisfied that no further action is required, and give you both a copy of the Investigating Officer's final report.

7 What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will review the Investigating Officer's report and will after consulting with the Independent Person either send the matter for local hearing before the Hearings Panel or seek local resolution.

7.1 Local Resolution

The Monitoring Officer may consider that the matter can reasonably be resolved without the need for a hearing.

In such a case the Monitoring Officer will consult with the Independent Person and with you as complainant to seek to agree what you consider to be a fair resolution. This also helps to ensure higher standards of conduct for the future.

Such resolution may include the member accepting that his/her conduct was unacceptable and offering an apology, and/or other remedial action suggested by the Parish Council.

If the member complies with the suggested resolution, the Monitoring Officer will report the matter to the Standards Sub-Committee and the Parish Council for information, but will take no further action.

However, if you tell the Monitoring Officer that any suggested resolution would not be acceptable, the Monitoring Officer will then make a decision along with the Independent Person as to whether to

refer the matter for a local hearing.

7.2 Local Hearing

If the Monitoring Officer considers that local resolution is not appropriate, or the member concerned is not prepared to undertake any proposed remedial action, such as giving an apology, then the Monitoring Officer will refer the Investigating Officer's report to the Hearings Panel. The Hearings Panel will conduct a local hearing before deciding whether the member has failed to comply with the Code of Conduct and, if so, whether to take any action in respect of the member.

Essentially, the Monitoring Officer will conduct a "pre-hearing process", requiring the member to give his/her response to the Investigating Officer's report, in order to identify what is likely to be agreed and what is likely to be in contention at the hearing. The Chair of the Hearings Panel may issue directions as to the manner in which the hearing will be conducted.

At the hearing, the Investigating Officer will present the final report, call such witnesses as considered necessary and make representations to substantiate his/her conclusion that the member has failed to comply with the Code of Conduct. For this purpose, the Investigating Officer may ask you as the complainant to attend and give evidence to the Hearings Panel. The member will then have an opportunity to give his/her evidence, to call witnesses and to make representations to the Hearings Panel as to why he/she considers that he/she did not fail to comply with the Code of Conduct.

The Hearings Panel, with the benefit of any advice from the Independent Person, may conclude that the member did not fail to comply with the Code of Conduct, and so dismiss the complaint.

If the Hearings Panel concludes that the member did fail to comply with the Code of Conduct, the Chair will inform the member of this finding and the Hearings Panel will then consider what action, if any, the Hearings Panel should take as a result of this. In doing this, the Hearings Panel will give the member an opportunity to make representations to the Panel and will consult the Independent Person, but will then decide what action, if any, to take in respect of the matter.

8 What action can the Hearings Panel take where a member has failed to comply with the Code of Conduct?

The Hearings Panel will endeavor to take into account all aspects of the particular case and look at the picture as a whole. In order to help a Parish Council to develop and improve functionality, the Hearings Panel may –

- 8.1 Report its findings to the Parish Council for information;
- 8.2 Recommend that the Parish Council arrange training for the Member;
- 8.3 Recommend to the Parish Council that the Member be removed from all outside appointments to which he/she has been appointed or nominated by the authority or by the Parish Council;
- 8.4 Recommend specific action or training to the Parish Council to aid its development and improve its functionality;

- 8.5 Recommend to the Parish Council that it withdraws facilities provided to the Member by the Council, such as a computer, website and/or email and internet access; or
- 8.6 Recommend that the Parish Council exclude the Member from the Council's offices or other premises, with the exception of meeting rooms as necessary for attending Council, Committee and Sub-Committee meetings.

9 What happens at the end of the hearing?

At the end of the hearing, the Chair will state the decision of the Hearings Panel as to whether the member failed to comply with the Code of Conduct and as to any actions which the Hearings Panel resolves to take.

As soon as reasonably practicable thereafter, the Monitoring Officer shall prepare a formal decision notice in consultation with the Chair of the Hearings Panel, and send a copy to you, the member and the Parish Council. That decision notice will be made available for public inspection. The decision will be reported to the next convenient meeting of the Governance and Audit Committee.

10 Who are the Hearings Panel?

The Hearings Panel is made up of 3 members selected from the Standards Sub-Committee.

The Independent Person is invited to attend all meetings of the Hearings Panel and his/her views are sought and taken into consideration before the Hearings Panel takes any decision on whether the member's conduct constitutes a failure to comply with the Code of conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.

11 Who is the Independent Person?

The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and is appointed by a positive vote from a majority of all the members of Council.

A person cannot be "independent" if he/she –

- 11.1 Is, or has within the past 5 years, been a member, co-opted member or officer of the authority;
- 11.2 Is or has been within the past 5 years, a member, co-opted member or officer of a parish council within the authority's area, or
- 11.3 Is a relative, or close friend, of a person within paragraph 11.1 or 11.2 above. For this purpose, "relative" means –
 - 11.3.1 Spouse or civil partner;
 - 11.3.2 Living with the other person as husband and wife or as if they were civil partners;

- 11.3.3 Grandparent of the other person;
- 11.3.4 A lineal descendent of a grandparent of the other person;
- 11.3.5 A parent, sibling or child of a person within paragraphs 11.3.1 or 11.3.2;
- 11.3.6 A spouse or civil partner of a person within paragraphs 11.3.3, 11.3.4 or 11.3.5; or
- 11.3.7 Living with a person within paragraphs 11.3.3, 11.3.4 or 11.3.5 as husband and wife or as if they were civil partners.

12 Appeals

There is no right of appeal for you as complainant or for the member against a decision of the Monitoring Officer.

The decision would be open to judicial review by the High Court if it was patently unreasonable, or if it were taken improperly or if it sought to impose a sanction which the authority had no power to impose.



Arrangements for dealing with standards allegations (against a District Councillor) under the Localism Act 2011

1 Context

The “Arrangements” set out how you may make a complaint that an elected or co-opted member of this authority has failed to comply with the authority’s Code of Conduct, and sets out how the authority will deal with allegations of a failure to comply with the authority’s Code of Conduct.

Under Section 28(6) and (7) of the Localism Act 2011, the Council must have in place “arrangements” under which allegations that a member or co-opted member of the authority or of a Committee or Sub-Committee of the authority, has failed to comply with that authority’s Code of Conduct can be investigated and decisions made on such allegations.

The arrangements must provide for the authority to appoint at least one Independent Person, whose views must be sought by the authority before it takes a decision on an allegation which it has decided shall be investigated, and whose views can be sought by the authority at any other stage, or by a member against whom an allegation has been made.

2 The Code of Conduct

The Council has adopted a Code of Conduct for members, which is available for inspection on the authority’s website and on request from Reception at the Council offices.

3 Making a complaint

The Monitoring Officer is a senior officer of the authority who has statutory responsibility for maintaining the register of members' interests and who is responsible for administering the system in respect of complaints of member misconduct.

- 3.1 In order to ensure that we have all the information which we need to be able to process your complaint, please complete and send us the complaint form, which can be downloaded from the authority's website, next to the Code of Conduct, and is available on request by telephoning the Monitoring Officer on 01427 676509.
- 3.2 We will aim to acknowledge receipt of your complaint within 5 working days of receiving it, and will keep you informed of the progress of your complaint. At this point in time, the person complained about will be supplied with a copy of your complaint form. **Please note at this time the information you provide to us will not be made available in the public domain.**

4 Will your complaint be investigated?

The Monitoring Officer will now review your complaint received and after consultation with the Independent Person and the relevant Group Leader, take a decision as to whether it merits formal investigation. This decision will normally be taken within 20 days of receipt of your complaint. Where the Monitoring Officer has taken a decision, he/she will inform you of his/her decision and the reasons for that decision in writing.

- 4.1 Where the Monitoring Officer requires additional information in order to come to a decision, he/she may come back to you for such information, and may request information from the member against whom your complaint is directed.
- 4.2 In appropriate cases, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the member accepting that his/her conduct was unacceptable and offering an apology, or other remedial action suggested by the authority. Where the member or the authority make a reasonable offer of local resolution, but you are not willing to accept that offer, the Monitoring Officer will take account of this in deciding whether the complaint merits formal investigation.
- 4.3 If your complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies.

5 How is the investigation conducted?

If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer, who may be another senior officer of the authority, an officer of another authority or an external investigator.

- 5.1 The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the nature of your complaint and so that you can explain your understanding of events and suggest what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview.

- 5.2 The Investigating Officer would normally write, **in confidence**, to the

member against whom you have complained, and ask the member to provide his/her explanation of events, and to identify what documents he/she needs to see and who he/she needs to interview.

- 5.3 At the end of his/her investigation, the Investigating Officer will produce a draft report and will send copies of that draft report, **in confidence**, to you and to the member concerned, to give you both an opportunity to identify any matter in that draft report which you disagree with or which you consider requires more consideration.
- 5.4 Having received and taken account of any comments which you may make on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6 What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will review the Investigating Officer's report and, if he/she is satisfied that the Investigating Officer's report is sufficient, the Monitoring Officer will write to you and to the member concerned notifying you that he/she is satisfied that no further action is required, and give you both a copy of the Investigating Officer's final report.

7 What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

The Monitoring Officer will review the Investigating Officer's report and will then either send the matter for local hearing before the Hearings Panel or, after consulting the Independent Person and the relevant Group Leader, seek local resolution.

7.1 Local Resolution

The Monitoring Officer may consider that the matter can reasonably be resolved without the need for a hearing.

In such a case, he/she will consult with the Independent Person and the relevant Group Leader and with you as complainant and seek to agree what you consider to be a fair resolution which also helps to ensure higher standards of conduct for the future.

Such resolution may include the member accepting that his/her conduct was unacceptable and offering an apology, and/or other remedial action suggested by the authority.

If the member complies with the suggested resolution, the Monitoring Officer will report the matter to the Standards Sub-Committee for information, but will take no further action.

However, if you tell the Monitoring Officer that any suggested resolution would not be adequate, the Monitoring Officer will then make a decision as to whether to, along with the Independent Person and the Group Leader, refer the matter for a local hearing.

7.2 Local Hearing

If the Monitoring Officer considers that local resolution is not appropriate, or the member concerned is not prepared to undertake any proposed remedial action, such as giving an apology, then the Monitoring Officer will report the Investigating Officer's report to the

Hearings Panel which will conduct a local hearing before deciding whether the member has failed to comply with the Code of Conduct and, if so, whether to take any action in respect of the member.

Essentially, the Monitoring Officer will conduct a “pre-hearing process”, requiring the member to give his/her response to the Investigating Officer’s report, in order to identify what is likely to be agreed and what is likely to be in contention at the hearing, and the Chair of the Hearings Panel may issue directions as to the manner in which the hearing will be conducted.

At the hearing, the Investigating Officer will present his/her report, call such witnesses as he/she considers necessary and make representations to substantiate his/her conclusion that the member has failed to comply with the Code of Conduct. For this purpose, the Investigating Officer may ask you as the complainant to attend and give evidence to the Hearings Panel. The member will then have an opportunity to give his/her evidence, to call witnesses and to make representations to the Hearings Panel as to why he/she considers that he/she did not fail to comply with the Code of Conduct.

If the Hearings Panel, with the benefit of any advice from the Independent Person, may conclude that the member did not fail to comply with the Code of Conduct, and so dismiss the complaint.

If the Hearings Panel concludes that the member did fail to comply with the Code of Conduct, the Chair will inform the member of this finding and the Hearings Panel will then consider what action, if any, the Hearings Panel should take as a result of the member’s failure to comply with the Code of Conduct. In doing this, the Hearings Panel will give the member an opportunity to make representations to the Panel and will consult the Independent Person, but will then decide what action, if any, to take in respect of the matter.

8 What action can the Hearings Panel take where a member has failed to comply with the Code of Conduct?

The Council has delegated to the Hearings Panel such of its powers to take action in respect of individual members as may be necessary to promote and maintain high standards of conduct. Accordingly the Hearings Panel may –

- 8.1 Censure or reprimand the member;
- 8.2 Publish its findings in respect of the member’s conduct;
- 8.3 Report its findings to Governance and Audit Committee;
- 8.4 Recommend to the member’s Group Leader (or in the case of ungrouped members, recommend to Council or to Committees) that he/she be removed from any or all Committees or Sub-Committees of the Council;
- 8.5 Recommend to the Leader of the Council that the member be removed from any particular responsibilities;
- 8.6 Instruct the Monitoring Officer to arrange training for the member;

- 8.7 Remove from all outside appointments to which he/she has been appointed or nominated by the authority;
- 8.8 Withdraw facilities provided to the member by the Council, such as a computer, website and/or email and internet access; or
- 8.9 Exclude the member from the Council's offices or other premises, with the exception of meeting rooms as necessary for attending Council, Committee and Sub-Committee meetings.

The Hearings Panel has no power to suspend or disqualify the member or to withdraw members' or special responsibility allowances.

9 What happens at the end of the hearing?

At the end of the hearing, the Chair will state the decision of the Hearings Panel as to whether the member failed to comply with the Code of Conduct and as to any actions which the Hearings Panel resolves to take.

As soon as reasonably practicable thereafter, the Monitoring Officer shall prepare a formal decision notice in consultation with the Chair of the Hearings Panel, and send a copy to you, to the member, make that decision notice available for public inspection and report the decision to the next convenient meeting of the Governance and Audit Committee.

10 Who are the Hearings Panel?

The Hearings Panel is made up of 3 members selected from the Standards Sub-Committee.

The Independent Person is invited to attend all meetings of the Hearings Panel and his/her views are sought and taken into consideration before the Hearings Panel takes any decision on whether the member's conduct constitutes a failure to comply with the Code of conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.

11 Who is the Independent Person?

The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and is appointed by a positive vote from a majority of all the members of Council.

A person cannot be "independent" if he/she –

- 11.1 Is, or has within the past 5 years, been a member, co-opted member or officer of the authority;
- 11.2 Is or has been within the past 5 years, a member, co-opted member or officer of a parish council within the authority's area, or
- 11.3 Is a relative, or close friend, of a person within paragraph 11.1 or 11.2 above. For this purpose, "relative" means –
 - 11.3.1 Spouse or civil partner;

- 11.3.2 Living with the other person as husband and wife or as if they were civil partners;
- 11.3.3 Grandparent of the other person;
- 11.3.4 A lineal descendent of a grandparent of the other person;
- 11.3.5 A parent, sibling or child of a person within paragraphs 11.3.1 or 11.3.2;
- 11.3.6 A spouse or civil partner of a person within paragraphs 11.3.3, 11.3.4 or 11.3.5; or
- 11.3.7 Living with a person within paragraphs 11.3.3, 11.3.4 or 11.3.5 as husband and wife or as if they were civil partners.

12 Appeals

There is no right of appeal for you as complainant or for the member against a decision of the Monitoring Officer.

The decision would be open to judicial review by the High Court if it was patently unreasonable, or if it were taken improperly or if it sought to impose a sanction which the authority had no power to impose.

Note 1: In those instances where there is no Group Leader to consult, the Monitoring Officer should consult with the Leader of the Council.

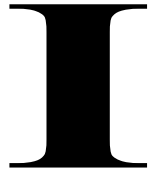
Note 2: If the complaint concerns a Group Leader or the Leader of the Council, then the Monitoring Officer will involve the relevant person from another Local Authority.



GA.46 16/17

Governance and Audit
Committee

17 January 2017



Subject: Constitution Amendments regarding Member Champions

Report by:

Director of Resources

Contact Officer:

Alan Robinson
Strategic lead for Democratic and Business
Support
Telephone 01427 676509
Email alan.robinson@west-lindsey.gov.uk

Purpose / Summary:

To formalise the previously informal
arrangements for Member Champions.

RECOMMENDATION(S):

To recommend to Council

- a) that the Constitution be amended to formalise the roles of Member Champions; and thus to enable travel and subsistence claims to be made for attendance at meetings and events by Members in their capacity as Member Champions, as is set out for representation on Outside Bodies.
- b) That the responsibility for appointing champions be included in the roles for committees.

IMPLICATIONS

Legal: to ensure compliance with the Council’s Constitution

Financial: Fin ref 120/17
May lead to a small increase in Member travel/subsistence claims.

Staffing : None

Equality and Diversity including Human Rights : N/A

Risk Assessment : None

Climate Related Risks and Opportunities : None

Title and Location of any Background Papers used in the preparation of this report:
[The Council’s Constitution](#)

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman) **Yes** **No**

Key Decision:

A matter which affects two or more wards, or has significant financial implications **Yes** **No**

1 Introduction

- 1.1 The Council's Constitution, Part VI Members Allowances, sets out those occasions when Members may claim a number of allowances (travel etc), and in Appendix 2 Approved Duties, specific organisations are listed which meet the criteria, e.g. the list of Outside Bodies to which Members are formally appointed by Annual Council.

Appendix 2 Approved Duties

The following are approved duties for which members may, if they wish, claim dependent carers', travelling and subsistence expenses:

.....

15. The attendance by the Council's nominated representative (or the nominated reserve in his/her absence) at meetings of any of the following outside organisations to which he/she has been appointed by the Council or one of its committees, provided the meeting is outside the Councillor's ward:
- 1.2 The number of Member Champions agreed on an informal basis has gradually increased over recent years, and it is felt that the establishment of such posts would benefit from a more formal arrangement.
- 1.3 By formalising the arrangement and listing those Champions for approval of the appointments by the relevant Committee, this would ensure that Members were entitled to claim expenses in accordance with the Members' Allowance Scheme as set out in the Constitution.
- 1.4 Formalising the arrangements for Member Champions would ensure that Members are clear in their Roles and Responsibilities and are covered by the Council's Code of Member Conduct.
- 1.5 A Number of key points in relation to these roles, is set out below for clarity: -
- All member Champions will have an allocated area of responsibility agreed at by the relevant Committee on an annual basis
 - All Member Champions must act reasonably in their role and recognise and work within the Political management and working arrangements adopted by the Council. As such the Member Champion must work with and communicate regularly with the relevant Committee chairs
 - A member champion cannot make decisions and must not commit the Council in any way or in a manner that could be interpreted as being contrary to established policy and practice. They may however confirm a position as stated in a published policy.
 - The Leader and chairs of Policy Committees will

- a) Acknowledge the right of member Champions to be consulted on matters relating to their area of interest
- b) Take full account of any views offered by the Member Champions prior to making decisions relating to the their area of interest
- c) Co-operate with member Champions in the formulation of action plans they have developed with lead officers
- d) Consider nominating champions to represent the Council at relevant conferences/seminar on the subject matter of the member's interest

2 Recommendations

- a) That the Governance and Audit Committee recommend to Council that the Constitution be amended to include the above Member Champion roles, and that those appointments be subject to the same Constitutional protocols as appointments to Outside Bodies.
- b) That the process for such appointments be delegated to the most appropriate Committee with responsibility for the work area.

Purpose:

This report provides a summary of reports that are due on the Forward Plan over the next 12 months for the Governance and Audit Committee.

Recommendation:

1. That members note the schedule of reports.

| Governance and Audit | | | |
|----------------------|--|---------------------|--|
| Active/Closed | Active | | |
| Date | Title | Lead Officer | Purpose of the report |
| 17/01/2017 | Treasury Management Draft Strategy | Tracey Bircumshaw | To present the draft strategy for scrutiny purposes |
| | Internal Audit Plan Q3 | Ian Knowles | To present progress against the agreed internal audit plan up until the end of period 3 |
| | Quickline Monitoring Q3 | Tracey Bircumshaw | Exempt monitoring report to assess progress against the agreed business loan |
| | Certification of Grants and Claims | Tracey Bircumshaw | For External Audit to present the Certification of Grants and Claims |
| | Member Champions | Alan Robinson | To formalise the role of Member Champions for the Constitution. |
| | revised members code of conduct for consultation | Katie Coughlan | to present a revised code of conduct for elected members for consultation with all members and parishes |
| | AGS 15/16 Monitoring Report (Q2) | James O'Shaughnessy | To provide Members with an update on the progress made against actions relating to the significant issues identified within the AGS 2015/16. |

| | | | |
|------------|--------------------------------------|---------------------|---|
| | Accounting Matters 2016/17 Closedown | Tracey Bircumshaw | To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2016/17 accounts. |
| 14/03/2017 | Combined Assurance Report 2016/17 | James O'Shaughnessy | To present the Combined Assurance Report |
| | external Audit Plan 16/17 | Tracey Bircumshaw | to present the external audit plan |
| 18/04/2017 | Quickline Monitoring Q4 | Tracey Bircumshaw | Exempt monitoring report to assess progress against the agreed loan as the end of period 4 |
| | Constitution Annual Review | Alan Robinson | To present the Annual Review of the Constitution – including call-in procedures and member champs |
| | Strategic Risks - 6 month update | James O'Shaughnessy | to present the 6 monthly update |
| | AGS 15/16 Monitoring Report (Q3) | James O'Shaughnessy | To provide Members with an update on the progress made against actions relating to the significant issues identified within the AGS 2015/16. |
| 20/06/2017 | Member Training update | Alan Robinson | To present an update on the Member development programme |
| 25/07/2017 | AGS 15/16 Monitoring Report (Q4) | James O'Shaughnessy | To provide Members with an update on the progress made against actions relating to the significant issues identified within the AGS 2015/16. |

Next year's full workplan will be viewable for the Committee's next meeting.