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West Lindsey District Council

Guildhall Gainsborough
Lincolnshire DN21 2NA
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AGENDA

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

Governance and Audit Committee
Tuesday, 16th January, 2018 at 2.30 pm
Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA

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

1. **Apologies for Absence**

2. **Public Participation Period**
Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.

3. **Minutes of Previous Meeting**

    i) Meeting of the Governance and Audit Committee held on 7 November (PAGES 3 - 10)

4. **Members Declarations of Interest**
Members may make any declarations of interest at this point but may also make them at any point during the meeting.

5. **Matters Arising Schedule** (PAGES 11 - 14)
Matters Arising schedule setting out current position of previously agreed actions as at 8 January 2018.

6. **Public Reports for Consideration**

Mark Sturgess
Interim Head of Paid Services
The Guildhall
Gainsborough

Monday, 8 January 2018

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 7 November 2017 commencing at 2.00 pm.

Present:	Councillor Giles McNeill (Chairman)
	Councillor Mrs Jackie Brockway (Vice-Chairman)
	Councillor Mrs Sheila Bibb
	Councillor John McNeill
	Councillor Mrs Angela White
	Alison Adams
	Andrew Morriss
	Councillor Thomas Smith was also in attendance.

In Attendance:

Mark Sturgess	Chief Operating Officer and Head of Paid Service
Ian Knowles	Director of Resources and S151 Officer
Alan Robinson	Monitoring Officer
James O'Shaughnessy	Team Manager – Corporate Policy and Governance
Andy Gray	Housing and Enforcement Manager
Matt Waller	Principal Auditor, Lincolnshire County Council
John Cornett	KPMG
John Sketchley	Internal Audit Team Leader, Lincolnshire County Council
David Lomas	Chairman, Independent Remuneration Panel
James Welbourn	Democratic and Civic Officer
Mark Sturgess	Chief Operating Officer and Head of Paid Service

Apologies:	Councillor David Bond
	Peter Walton

36 PUBLIC PARTICIPATION PERIOD

There was no public participation.

37 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 14 September were approved as a correct record and signed by the Chairman.

38 MEMBERS DECLARATIONS OF INTEREST

None.

39 MATTERS ARISING SCHEDULE

Members gave consideration to the Matters Arising Schedule which set out the current position of all previously agreed actions as at 30 October 2017.

The Head of Paid Service answered a question on stress from Councillor Mrs Brockway. The following points were highlighted:

- Annual Staff Surveys are run. The results of the most recent survey had been through the Joint Staff Consultative Committee. This showed that staff satisfaction rates are improving;

- There was an Employee Assistance Programme (EAP);

- A lack of control over people's work and a lack of clarity on that work can cause stress to staff members. In place was a new management structure that gives clarity to these roles and responsibilities;

- Staff development continues to be monitored through the appraisal system, and the ongoing provision of training.

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

40 MEMBERS' ALLOWANCES

Consideration was given to a report on Members' Allowances, and the discussion fed into the work being carried out by the Independent Remuneration Panel.

Both the Chairman, and the Vice-Chairman thanked the Chair of the Independent Remuneration Panel (IRP) for the work that he and his Panel were undertaking.

Members of the Committee made highlighted further points:

- It was not always easy to recruit people of working age to be a Councillor;

- The value of the remuneration was there also in part to compensate for any loss of earnings incurred;

- Eye tests for Councillors of working age could be introduced to mirror the benefit that staff members get;

- The hourly rate of £6.50 for the carer's allowance was for the year 16/17 – a higher rate in line with the minimum wage could be considered;

- If there were a scenario whereby there were two separate Chairs of the Licensing and Regulatory Committees, it could be an option to split the Special Responsibility Allowance (SRA) for this post, currently occupied by one Chair;

The Chairman of the Independent Remuneration Panel thanked Members for their comments and submissions.

RESOLVED to feed the discussions held on the Members' Allowances Scheme into the Remuneration Panel's deliberations.

41 ATTENDANCE OF THE HEAD OF PAID SERVICE

The Head of Paid Service, having previously dealt with the Combined Assurance Report under 'Matters Arising', updated the Committee on the Progress and Delivery Audit Review, and the Development Management Audit.

The following points were discussed:

- There were one-to-one's with all Managers on Progress and Delivery to ensure that the measures being used were effective. As part of that, the measures being used were reduced in number from 150 to 130;

- The two criteria being used for the effectiveness of Progress and Delivery are:
    1. Is it useful to Members when they are judging performance of a service?
    2. Is it useful for Managers in driving continuing performance in their service?

- A commitment was made to completely review how performance management was reported to the Council. This was done by closely monitoring delivery of the Corporate Plan, as well as building on the gains of the previous year by driving continuous improvement;

- Scrutiny has proved difficult for West Lindsey District Council (WLDC) as it has been set up for Councils that have a Cabinet system;

Following questions and comments from Members, further points were raised:

- The Association for Public Service Excellence (APSE) research into Scrutiny report was available for all Challenge and Improvement Members;

- It was incumbent on the Policy committees to properly scrutinise audit reports, in addition to the work that Challenge and Improvement does;

- The intention with Scrutiny training would be for it to be open to all Members of the Council, not just Challenge and Improvement Members;

- Progress and Delivery has been audited three times, with the second audit stating that metrics were being changed too often. The approach being taken is an annual review, with a change control process in place should it be necessary to make a change to metrics in year.

42 OUTCOME OF DEVELOPMENT MANAGEMENT AUDIT

Consideration was given to a report that provided Members with the findings of the Development Management Audit requested by Governance and Audit Committee in January 2017.

The Head of Paid Service provided the following information:

- The Audit was an independent assessment of how the Planning department was operating. The report stated that there was a well-run and effective service in place;

- Clear communication and transparency were of paramount importance;

- The demand for enforcement was increasing, and the times for resolutions was longer. Temporary staff were making a difference; the demand was not decreasing. Recruitment was underway;

- Enforcement was demand led, so a risk based policy had been proposed. This has meant that sometimes, only the highest risk cases will be dealt with. The proposed risk based policy was subject to pre-scrutiny by Challenge and Improvement Committee, before going to Prosperous Communities Committee;

Following questions and comments from Members, further information was provided:

- An ‘inadequate’ or ‘ineffective’ rating does not apply to the capabilities of Planning and Enforcement officers at WLDC – officers at WLDC put in a lot of time and effort;

- 4 Members were spoken to during the Development Management Audit. 10 Members were asked to take part, but only 4 responded;

- The majority of Section 106 agreements signed for now are related to affordable housing, delivered onsite. As a fall back, section 106 contributions will be accepted towards affordable housing elsewhere in the district.

  Other areas where section 106 monies are collected are schools, doctor’s surgeries, and highways. WLDC act as bankers, as those schemes are delivered by WLDC directly;

- WLDC do run a developer and agent’s forum seeking the views of these groups. Parish Council members are invited to certain elements of training afforded to West Lindsey Members;

- There was a move towards a system to record customer service standards. Users will be involved in the setting of standards;

- This Development Management Audit took an overview of the Planning service. Planning Members, and individuals involved in Planning bring forward individual cases. There were two issues with individual cases – the process could have been wrong, and there was an internal process to deal with these issues. There were also appeals to the Secretary of State where a refusal was generated;

- The Audit had shown that the processes within the Planning Services were appropriate and fit for purpose;

- Team Managers receive a monthly update from a Corporate Team Member on the subject of audit actions;

- The Section 106 Monitor would like for Section 106 monies to be more transparent, by making the route of the monies available online.

RESOLVED to note the paper and the comments provided above.

43 INTERNAL AUDIT PLAN - PERIOD 2 MONITORING REPORT

Consideration was given to a report giving Members an update of progress, by the Audit partner, against the 2017/18 annual programmes agreed by the Governance and Audit Committee in March 2017.

The report ran up to the end of September 2017 (the end of Quarter 2).

Following questions and comments from Members, further information was provided:

- There was a regular review of the Flare application, and it would not need an audit. There are limited other systems within WLDC that have customer access. All other systems are accessed through portals, rather than having direct access into back office IT systems;

- The target of May 2017 for the Progress and Delivery Audit was the original target agreed. This date for completion should have been replaced with a more realistic date as the Head of Paid Service did not fully feel that performance management was embedded in the organisation. This was why the date had slipped;

- The 'Closer to the Customer' approach was about asking each service at WLDC what their digital aspirations were;

- There was a majority of people that want to use technology to access their services, however, there are some individuals that don't;

- The shared ICT infrastructure with North Kesteven District Council has given WLDC added resilience.

RESOLVED to note the content of the report.

44 ANNUAL AUDIT LETTER

Consideration was given to the Annual Audit Letter presented to the Governance and Audit Committee.

John Cornett from KPMG introduced the report, and highlighted the following points:

- The letter represented the completion of the 2016/17 audit;

- An unqualified opinion on the accounts and an unqualified value for money conclusion was given;

- The audit letter reiterated the view of KPMG that WLDC can meet the financial challenges going forward through the arrangements and approaches in place;

- There was not a small additional fee resulting from the extra work KPMG undertook around the restatement of the comprehensive income and the expenditure statement;

- KPMG provided some non-audit work in providing tax advice on group structure considerations to the value of £5200 shown under appendix 2 of the audit letter and this was charged separately from the audit work;

The Chairman thanked Mr Cornett and KPMG for their work on this report.

RESOLVED to accept the information contained within the report.

45 PERIODIC REVIEW OF THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17

Members considered a review on the progress of the Annual Governance Statement Action Plan for 2016/17.

The Team Manager – Corporate Policy and Governance introduced the report, and highlighted the following:

- The selective licensing scheme is deemed to be working well. This action is deemed to be closed for the purposes of this action plan;

- It was recommended that the Development Management was kept on the action plan;

- Progress was underway on the other 6 actions in the plan.

RESOLVED:

(1) That Members were assured that the current position of the Annual Governance Statement Action Plan for 2016/17 will result in the completion of all relevant actions by July 2018;

(2) To approve the closure of the action relating to Selective Licensing;

(3) To retain inclusion of Development Management on the action plan at this stage.

46 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Members considered a report on the effectiveness of the internal audit service provided by Assurance Lincolnshire.

The Director of Resources informed the Committee that WLDC receive a value for money service from the Internal Auditors. Auditors present received his thanks.

Team Manager – Corporate Policy and Governance highlighted to members paragraph 7.9 of the report that reiterated that it was imperative for the Committee to hold these reports to account.

RESOLVED to agree with the conclusion that the Council has effective internal audit arrangements in place.

47 REVIEW OF STRATEGIC RISKS (NOV 2017)

Members considered a report on the strategic risks facing the Council as at November 2017.

The Team Manager – Corporate Policy and Governance introduced the report and highlighted the following points:

- The approach in the report was adopted and approved by the Association of Local Authority Risk Managers;
- There was a risk matrix based on the impact and likelihood of a risk occurring;
- Since the risks were last shared with the Committee earlier in the year, there have been a number of changes. The delivery of the Central Lincolnshire Local Plan (CLLP) has occurred and has been removed from the risk register. Devolution conversations have ceased so this has also been removed from the register. Finally, the Chief Executive has left, and so the risks for that post have been redistributed between other senior managers;

Following questions and comments from Members and officers, further information was provided:

- The risk strategy will be reviewed later in the year, and this may include looking at issues such as having a target risk level;

Note: The Chairman informed the Committee that the Electoral Commission are not going to be investigating a boundary review in West Lindsey any further.

RESOLVED to note the strategic risks as presented.

48 WORKPLAN

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

RESOLVED that the work plan as at 7 November 2017 be noted.

The meeting concluded at 3.51 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

Status	Title	Action Required	Comments	Due Date	Allocated To
Black					
	Internal Audit Plan	Review of P&D recommended actions/assess progress made to date	The Chairman of the G&A Cttee invited the Head of Paid Service to the next meeting (7th November) in order that he could update the Committee on the progress made regarding the outstanding recommendations in relation to the Progress and Delivery audit.	07/11/17	Mark Sturgess
		P&D Audit Recommendations to be included in Q2 P&D report	Reference to the Progress and Delivery Limited Assurance Audit to be included in the Progress and Delivery report and thus submitted to the Prosperous Communities and Corporate Policy and Resources committees/report to be added to the FW Plan. Agreed that this item was to roll onto the next G&A committee on 7th November (which Mark is noted to attend in order to present).	07/11/17	Mark Sturgess

	strategic risk register	extract from mins of mtg 18/4/17: - Discussion ensued and Members were asked to consider whether there were any further strategic risks they considered should be reflected on the register. The following suggestions were made: - • Uncertain outcome of the general election • County Council's plans regarding unitary authorities Officers undertook to consider these further.	**james please see above, and feedback through this matters arising any comments you have. James to provide an update at 1 June Briefing. Work is on-going, suggestions made to date continue to be considered. Members will next review the Risk Register in November.**	07/11/17	James O'Shaughnessy
Green					

	member training - future topic request	Extract from mins of mtg 14/3 The rationale for reviewing sales invoicing was further explained and it was noted that key staff were been offered training around commerciality. Members requested that some level of commercial awareness training be built into the Member Training Plan in the future.	**Please build into plan going forward. Discussion took place to confirm what training Members required. Agreed to look at courses to aid better understanding of issues such as Procurement, Commercial awareness, Ethics, Decision making, Business Case risk/understanding, Conflicts of Interest, Commercialism, setting up a Private Company and related risks, Contract management. External and Internal training options to be considered.**	25/10/17	Alan Robinson

	Scrutiny Workshop	A meeting between Cllr McNeill, Cllr Howitt-Cowan, Cllr Summers and Cllr Bibb, Alan Robinson and Mark Sturgess about having a workshop to discuss how Scrutiny operates at the moment and its role in the future.	**Please see comments to the left.**	16/01/18	Alan Robinson
Grand Total					

Governance & Audit Committee	
Date: 16th January 2018	

Subject: Periodic review of the Annual Governance Statement Action Plan 2016/17

Report by:	Ian Knowles, Director of Resources
Contact Officer:	Corporate Policy Manager
Purpose / Summary:	To review the progress with the Annual Governance Statement 2016/17 Action Plan.

RECOMMENDATION(S):

1) **That Members seek assurance that the current position of the Annual Governance Statement Action Plan for 2016/17, will result in the completion of all relevant actions by July 2018.**

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-126-18 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 2016/17 and Action Plan

Call in and Urgency:

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

Yes		**No**	**X**

Key Decision:

Yes		**No**	**X**

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 In July 2017, the Governance and Audit Committee agreed the Annual Governance Statement for 2016/17 and noted that an action plan would be put in place and monitored by the Committee to address the significant issues.

2. Significant Issues 2016/17

2.1 The significant issues that were identified for development were:

i. **Implementation of General Data Protection Regulations** – to ensure compliance with new regulations coming into force on 25th May 2018, which aim to increase cyber-security and the protection of data

ii. **Political Governance** – to maintain and re-inforce the current high standards of behaviour across all levels of democratic governance within West Lindsey

iii. **Partnerships** – to critically evaluate and maintain the effectiveness of the Council's key strategic partnerships

iv. **Value for Money** – to complete value for money assessments across service areas and develop appropriate improvement plans to achieve greater value for money and increased productivity; wider usage of benchmarking and the creation of a value for money culture

v. **Delivery of Key Commercial and Community Based Projects** – to deliver at the required pace, key projects in support of the Corporate Plan which deliver benefits for the whole of the District

vi. **Resilience and Capacity** – to balance the Council's capacity to deliver ambitious programmes with the operational and management responsibilities placed on staff

vii. **Selective Licensing** – for Members to receive and consider a report evaluating the implementation and effectiveness of the scheme

viii. **Development Management** – to receive the findings of an audit into the service, providing oversight and scrutiny to ensure subsequent recommendations and actions are appropriately considered and implemented

2.2 These issues had been identified as a result of the Council's annual Combined Assurance Report, the need to carry-over matters contained within the 2015/16 action plan, or the key strategic importance of the issue to the Council.

3. The Action Plan

3.1 At the 7 November 2017 meeting of Governance and Audit Committee, agreement was reached to close the action relating to Selective Licensing and to continue to monitor the implementation of actions arising out of the most recent Development Management audit.

3.2 Work remains in progress across the remaining issues with the current position detailed on the attached Action Plan. At this stage it is anticipated that all issues will be adequately addressed within the set timescales.

3.3 Members will receive two further progress reports as the year progresses.

4. Recommendation

4.1 Members are asked to:

State their assurance that the current position of the Annual Governance Statement Action Plan for 2016/17, will result in the completion of all relevant actions by July 2018.

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Annual Governance Statement 2016/17 Action Plan

Issue	Description	Action	Current Position	Date Due	Officer	BRAG
Implementation of General Data Protection Regulations	To ensure compliance with new regulations coming into force on 25th May 2018, which aim to increase cyber-security and the protection of personal data	1. Devise project plan and milestones 2. Undertake self-assessment exercise and act on findings 3. Determine response for appointment of DPO 4. Implement scheme of staff training and awareness 5. Maintain on-going review of guidance and best practice 6. Obtain external assessment of delivery plan	1. Project plan designed and progress review mechanisms in place 2. Self-assessment exercise underway 3. Training packages being investigated 4. DPO position appointed 5. Communications plan developed 6. Audit scheduled for Q3 to check progress	30/06/2018	I. Knowles	Green
Political Governance	To maintain and re-inforce the current high standards of behaviour across all levels of democratic governance within West Lindsey	1. Roll-out newly adopted Code of Conduct via training/workshops 2. Deliver specific Member behaviour training via external provider 3. Produce annual report to Standards Committee 4. Work closely with Group Leaders 5. Work with team managers and other key staff on working in a political environment	1. New Code of Conduct in place 2. Training delivered for Members July 2017 3. Regular meetings scheduled with Group Leaders 4. Team manager training incorporated into Workforce Development Plan 5. Annual report presented to Standards Committee 6. Training sessions scheduled for Member/Officer working	31/07/2018	A. Robinson	Green

			protocols and political awareness			
Partnerships	To critically evaluate and maintain the effectiveness of the Council's key strategic partnerships	1. Review all key partnerships and update partnership register 2. Report to GCLT on evaluation 3. Raise awareness and understanding across staff 4. Implement on-going monitoring and reporting on effectiveness	1. Paper to GCLT in May 2017 setting out rationale 2. Review of Audit Commission's 'Governing Partnerships' guidance underway 3. Review meetings TBA with partnership leads 4. Cleanse of partnership register completed	31/07/2018	I. Knowles	Green
Value for Money	To complete value for money assessments across service areas and develop appropriate improvement plans to achieve greater value for money and increased productivity; wider usage of benchmarking and the creation of a value for money culture	1. Gain understanding of benchmarking tool 2. Undertake VfM assessments across a number of service areas 3. Report initial findings to GCLT and learning obtained 4. Roll-out VfM work across remaining service areas 5. Identify improvements required and plans for delivery 6. Monitor progress through internal processes	1. VfM tool utilised and VfM assessments produced 2. VfM Handbook produced 3. Findings presented to a number of service areas with discussions and consideration of results	31/07/2018	I. Knowles	Green
Delivery of Key Commercial and Community Based Projects	To deliver at the required pace, key projects in support of the Corporate Plan which deliver benefits for the whole of the District	1. Ensure effective Sponsorship of all key projects 2. Review delegation arrangements and streamlining of governance arrangements 3. Effective Board scrutiny and	1. Sponsorship of key programmes and projects allocated 2. Work underway to examine governance processes 3. Board ToRs in place	31/07/2018	E. Fawcett-Moralee	Green

		challenge/support for programme delivery 4. Commission audits into ‘Effective Decision Making’ and ‘Commercial Plans Delivery’ 5. Act on recommendations of Commercial Plans Delivery audit	following review 4. ‘Quality of Decision Making’ consultancy review found the decision making process for large scale programmes and projects is robust and can be considered to be supportive of good decision making 5 ‘Commercial Plans Delivery’ audit reported limited assurance – recommended actions being progressed			
Resilience and Capacity	To balance the Council’s capacity to deliver ambitious programmes with the operational and management responsibilities placed on staff	1. Workforce Development Plan reviewed and updated 2. Implement resourcing plan to ensure appropriate skills/capacity in place 3. Undertake to streamline processes to deliver greater efficiency and delivery capacity 4. Completion of Business Plans to identify staff resources required to deliver objectives through to 2020/21 5. Undertake review of progress of the Corporate Plan and identify and prioritise future work programmes	1. Current Workforce Development Plan ready to be reviewed taking account of appraisal 16/17 needs 2. Outline Resourcing Plan principles in place 3. Work underway to examine processes of governance following external review 4. Restructure at management level completed 5. Business Plans submitted and analysis completed. Feedback provided by Directors	31/07/2018	I. Knowles	Green

			6. Review of Corporate Plan underway			
Selective Licensing	For Members to receive and consider a report evaluating the implementation and effectiveness of the scheme	1. Officers to collate data and information and produce report 2. Report to be presented and approved by Prosperous Communities Committee Oct 17	1. Scheme in place and monitoring and review of effectiveness in place 2. Report received by PC Committee and approved. Now deemed as BaU activity	31/12/2017	M. Sturgess	Black
Development Management	To receive the findings of an audit into the service, providing oversight and scrutiny to ensure subsequent recommendations and actions are appropriately considered and implemented	1. Audit to be completed and findings considered by GCLT 2. Audit report to be presented to G&A Committee 3. Actions to be completed and signed off	1. Audit completed and report received. Substantial assurance rating received and findings reviewed by G&A Committee Nov '17 2. Await evidence of sufficient progress against agreed audit actions	31/03/2018	M. Sturgess	Green

Governance & Audit Committee	
16 January 2018	

Subject: Draft Internal Audit Quarter 3 Progress Report 2017/18

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 2017/18 annual programmes agreed by the Audit Committee in March 2017.

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

IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises from the report.

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**	**X**

Key Decision:

Yes		**No**	**X**

West Lindsey District Council
The Entrepreneurial Council

Assurance LINCOLNSHIRE
For all your assurance needs

DRAFT Internal Audit Progress Report at 19th December 2017

Contents — Para

Contact Details:
Lucy Pledge CMIIA QIAL
Head of Audit & Risk Management

Assurance LINCOLNSHIRE

For all your assurance needs
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Introduction

1. The purpose of this report is to:

    - Advise of progress made with the 2017/18 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. Work continues to progress on the 2017/18 audit plan with all audit reviews except one scheduled for quarters two and three either started, at draft report stage or completed.

3. The following audits have been completed since the last progress report and details are included in this report:
    - Quality of Decision Making consultancy review
    - Commercial Plan Phase 2
    - Bank Reconciliation
    - Licensing
    - NKDC Partnership review

    The Sales & Invoicing audit is at draft report stage.

    Full details of progress are detailed in the Internal Audit Plan schedule in **Appendix 2.**

4. The only audit that has not commenced is ICT Patch Management. The Systems Development and ICT Manager has asked that this be delayed as the Council has recently been through PSN accreditation which gives some assurance that patch management arrangements are satisfactory. There has also been a change to the patch management process and it seemed sensible to allow this approach to bed in before undertaking the audit. It was agreed with the management team that this audit would be completed in quarter 4.

5. We have delivered 62% of the 2017/18 Internal Audit Plan against a quarter three target of 69%.

6. Good progress has been made in implementing audit recommendations - there are currently 2 overdue actions. 1 is medium priority and 1 is high. The high priority action relates to the ICT Infrastructure audit which was limited assurance. Details on the outstanding actions can be found in **Appendix 3 & 5**.

7. During quarter three we were asked to provide additional support to the Benefits section to help complete extra subsidy testing required by External Audit. This work supported a more accurate assessment on the errors found in initial testing and helped ensure subsidy claim overpayments were accurate and not based on estimated costs.

Internal Audit work completed at 19th December 2017

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

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy
	Bank Reconciliation Licensing Shared Services with NKDC		Commercial Strategy	Quality of Decision Making

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**.

9. Below are summaries of the audit reports issued. :

Bank Reconciliation – Substantial Assurance

Our review provided substantial assurance that there is a robust bank reconciliation process in place.

There are designated knowledgeable and experienced officers from the Finance team who perform the bank reconciliation, following a robust manual process which has been in place for a number of years. There is a rotation between different officers reconciling each bank account. There is also separation in duties between officers and a good management oversight and approval system in place. Senior officers are scrutinising mismatched and unreconciled payments before signing off the monthly bank reconciliations.

A new ICT bank reconciliation system was launched in 2016 with the aim to be used for fully automated bank reconciliation process and to achieve efficiencies in officers' time and simplify the bank reconciliation process as a whole. It has taken over a year to test the new ICT system and we have been told that it is now working as expected. However the reports produced from the new ICT system are yet to be fully tested and implemented. Until this has been finalised the bank reconciliation is still performed by a manual process. As a result it was agreed with the Finance and business support manager to do a follow up of this audit which will concentrate on testing the new ICT system when the reports produced are fully tested and implemented.

Licensing – Substantial Assurance

The Licensing section provides an important statutory service to the Council and its residents. It helps ensure that relevant activities and businesses are licensed.

We found that systems and controls are operating effectively and this provides a substantial level of assurance for the service against the reviewed risks.

The service has been proactive in identifying and actioning possible risks to the Council around the licensing function. This includes ensuring safeguarding is a key element and consideration of the licensing process. It has also acted on advice to ensure the Councils constitution and committee structure remains legally compliant and up to date.

A key element of the review was ensuring safeguarding systems are managed effectively. We found that the service has robust application controls in place which provide assurance that only bona fide applications are processed. Further processes have been introduced including a taxi driver safeguarding on- line training, that all drivers are required to take.

We made several recommendations to further support the effective working of the service including:

- Safeguarding – Ensure the minority of drivers who have not completed the on-line safeguarding training are monitored and encouraged to take the training.
- Risk Management – Review the operational risk register and ensure the service has captured recorded and monitors relevant service risks.

Shared Services with NKDC– Substantial Assurance

Over the last few years the Council has developed partnership working with North Kesteven District Council. The partnership is now one of the most important to the Council and encompasses ICT, payroll and other services.

There is robust governance arrangements are in place for the delivery of the shared services. Individual services are overseen by operational managers and the partnership as a whole is overseen by strategic managers from both Councils. There are regular operational meetings and regular quarterly review meetings attended from both operational and strategic managers where performance, feedback, concerns and future plans are monitored and discussed.

We identified a number of areas where the Council is able to improve the working of the partnership:

- Establish more clarity around the future strategic direction of the partnership, for example clarification of each partner's position for a possible move towards cloud based computing; the commercial appetite of the partnership and the future offer for the ICT teams.

- Operational risks are recorded in operational risk registers, however the risks for the partnership as whole could be recorded in a partnership risk register.
- Since the beginning of the partnership the Council's ICT budget has nearly halved from £401,500 in 2012/13 to £220,900 for 2017/18. A review of the financial savings achieved by the partnership will enable the council to assess if the savings identified in the initial business case for the creation of the partnership have been achieved

Commercial Strategy – Low Assurance

Becoming more commercial is a key Council theme. The aim is to increase income through commercial ventures to ensure key Council services continue to be provided. The commercial approach and corporate aim is also to make staff more aware of commercial thinking and change the culture of the Council.

We carried out a consultancy review of commercial plans and governance in 2016. This audit is a follow up of that work to provide assurance on the progress made in delivering the Commercial Strategy and year one 2016/17 delivery plan.

The Council has been through a period of transition and change over the last two years which has inevitably had an impact on the effectiveness of the delivery of its Commercial Plan. There have been several changes in the lead officers as the Commercial Director, Interim Commercial Strategic Lead and Chief Executive – all who took the lead on this plan - have left the Council. This has resulted in changes in approach and a lack of continuity over some of the strategies and projects. There remains a significant amount of work outstanding with only 50% of the 2016 / 17 success measures achieved and our audit identified some key areas of improvement which is why we have given Low assurance.

Our review, did however, find that the Council has continued to develop its commercial activities and culture and has made progress in some areas - including the purchase of Sure Staff business and being nominated for a commercial award. Recent audits have also showed good control processes are in place around Growth, Project Management and Effective Decision Making.

Full details of the report are attached in **Appendix 1**

Quality of Decision Making – Consultancy

The Council is developing some large scale programmes and projects of work. It is borrowing capital to support the corporate plan and invest in the District.

It is important that decisions in respect of the programmes and projects are made in the right way through a process of developing business cases, scrutiny and challenge and approvals through the appropriate Committee.

Our review identified that the decision making process for large scale programmes and projects is robust and can be considered to be supportive of good decision making.

It is not possible for any decision making process to guarantee that the best decision is made in all circumstances, however the process operated by the Council has created an environment that supports the taking of decisions that achieve the best outcome for the Council.

We sent questionnaires to twenty two members who had been involved in the decision making process and five members responded to our questionnaires. The overall feedback from members involved in the decision making process was positive. All agreed or strongly agreed that they fully understood the decision being made and that the officers provided complete answers to all the questions put to them.

Overdue Audit Recommendations

10. Outstanding Internal Audit recommendations are tracked and monitored along with the Council's Business Improvement Officers to ensure actions are accurately recorded and monitored. This helps to maintain oversight and momentum.

11. There are 2 overdue management actions of which 1 is High priority. Both of these actions have had the date for completion extended.

    Appendix 3 & 5 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 – the table below shows our performance on key indicators as at 19th December 2017.

Performance Details 2017/18 Planned Work

Performance Indicator	**Annual Target**	**Target to date**	**Actual**
Percentage of plan completed.	100% (revised plan)	69%	62%
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%

Final report issued within 5 working days of CLT agreement. Period taken to complete audit – within 2 months from fieldwork commencing to the issue of the draft report.	100% 80%	100% 80%	100% 58% (4 of 7)
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Excellent

*Work scheduled in and due to start February 2018, this will give us almost a full 12 months of financial transactions for the review.

Appendix 1 – Details of Low Assurance Audits

Commercial Plan Delivery

Background and Context

Becoming more commercial is a key Council theme. The aim is to increase income through commercial ventures to ensure key Council services continue to be provided. The commercial approach and corporate aim is also to make staff more aware of commercial thinking and change the culture of the Council.

We carried out a consultancy review of commercial plans and governance in 2016. This audit is a follow up of that work to provide assurance on the progress made in delivering Commercial plans.

The Council's 2016 – 2020 Commercial strategy covered four main themes.

- Generating income through charging, trading and investment
- Securing greater external funding
- Increasing capital and revenue returns through delivering housing and growth
- Enhancing the councils commercial culture and capability.

The Councils Commercial approach is a red risk on the strategic risk register. There were also commercial red and amber emerging risks raised during 2016/17 assurance mapping.

Scope

The scope was agreed with the Corporate leadership Team.

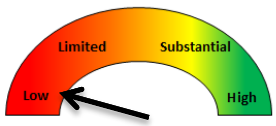
With the focus being:'Review the commercial strategy and year one delivery plan to assess progress on key commercial projects and review the governance structures and strategic direction of commercial work'.

Risks

To provide assurance the following risk areas to be reviewed -

- Insufficient capacity, capability and staff engagement to deliver. Is the Council aligning its resources and structure to be able to deliver on the Commercial plan themes and objectives?
- Failure to set, monitor and deliver commercial plan targets. The Council will not deliver the required income target by the 2020 target date.
- Ineffective governance structures and decision making process to support the delivery of commercial projects.
- A lack of clear strategic direction on commercial aims and projects affects the Councils ability to deliver.
- Failure to manage the risks around delivering the commercial year one plan.

Level of Assurance



Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Risk 1 - Insufficient capacity, capability and staff engagement to deliver. The Council does not align its resources and structure to be able to deliver on the Commercial plan themes and objectives.	Amber	**0**	**1**
Risk 2 - Failure to set, monitor and deliver commercial plan targets. The Council will not deliver the required income target by the 2020 target date.	Red	**1**	**1**
Risk 3 - Ineffective governance structures and decision making process to support the delivery of commercial projects.	Red	**2**	**1**
Risk 4 - A lack of clear strategic direction on commercial aims and projects effects the Councils ability to deliver.	Red	**1**	**0**
Risk 5 - Failure to manage the risks around delivering the commercial year one plan.	Amber	**1**	**2**

Key Messages

The Council has been through a period of transition and change over the last two years which has inevitably had an impact on the effectiveness of the delivery of its Commercial Plan. There have been several changes in the lead officers as the Commercial Director, Interim Commercial Strategic Lead and Chief Executive – all who took the lead on this plan - have left the Council. This has resulted in changes in approach and a lack of continuity over some of the strategies and projects. There remains a significant amount of work outstanding with only 50% of the 2016 / 17 success measures achieved and our audit identified some key areas of improvement which is why we have given Low assurance.

Our review, did however, find that the Council has continued to develop its commercial activities and culture and has made progress in some areas - including the purchase of Sure Staff business and being nominated for a commercial award. Recent audits have also showed good control processes are in place around Growth, Project Management and Effective Decision Making.

The outcome of our audit will enable the Council to take stock of progress to date, review and re-focus the priorties and activties contained in the Commercial Plan. We provide recommendations to help strengthen exisiting

Key Messages

arrangements – in particular:

- Monitoring of delivery of projects and revenue income against the 1 million pound target could be developed as the comemrcial income is not reported on (other than as part of the overall budget position) and is not currently included in the Progress and Delivery reports provided to Prosperous Communities Committee.

- Previously there was a commercial strategy and 2016/17 delivery plan. There is no 2017/18 delivery plan and the strategy is due for an update - this has not been completed (due to the departure of key officers). This, along with changes in the lead officer has effected clarity on the Council's strategic direction, which sits at the heart of effective management and delivery of its commercial aims. Any change and move away from a defined commercial approach to increasing income through business as usual activities or using the Medium Term Financial Plan in place of a commercial strategy should be agreed, approved and communicated to staff.

- The Entrepreneurial Board is the key monitoring and governance board for the Council. At the two meetings we attended one was cancelled and one was not effective, in providing the support and strategic direction as set out in the boards Terms of Reference. This was partly due to the running and chairmanship at the meeting. The impact of this is that some programmes and projects are not receving the strategic management and overview they require. This can affect delivery and progress of projects.

To help address our findings we recommend the Council should consider the following areas:-

CORPORATE GOVERNACE

- Explore and document the Councils' risk appetite for taking on commercial projects. Determine the maximum finacial exposure and risk the Council is prepared to take in support of commercial aims.
- Review and strenghten member scrutiny to ensure there is effective challenge for delivery plans and new projects.
- There is no evidence of tracking the one million pound revenue target for commercial work, which further supports the need for scrutiny and challenge.
- Review the risk management of new commercial projects and ensure there is effective monitoring of risks and mitigating actions.

BOARD GOVERNACE

- The board should meet monthly so it can provide ongoing support to projects.
- Core members should ensure they provide the strategic level of support and guidance that project managers require and that are set out in the terms of reference.
- The agenda should be used to steer the meetings and members of the board should ensure that all items on the agenda are covered.
- Ensure the board remains effective and provides value for money and strategic support by focussing on key issues and providing proportionate input to agenda items.
- Verify that summary reports accurately report project milestones as recorded in original documents.
- Apply a change control process if officers wish to amend milestone details or dates.

STRATEGY

- The Council defines its approach to income generation whether this is as commercial activities supported by a commercial plan or business as usual for services with income targets and commercial thinking.
- The Council ensures it's commercial aims, strategy and deliverables are recorded and communicated to staff.
- Any new or alternative approach to corporate commercial income generation should be clearly communicated to staff.
- Ensure there is effective monitoring and management engagement with any new strategy or delivery plan.

PROGRESS

- Confirm if a year two delivery plan is going to be created to follow on from the year one delivery plan.
- At the end of 2016/17 a summary report was made to members showing that 50% of measures had been delivered. Verify how the incomplete measures from the year one delivery plan are being monitored and progressed.
- Review how income from commercial projects can be separated out and reported to staff.
- Create a regular report for managers which can be shared with the wider teams to show the progress against this key Council target.
- The initial commercial strategy and year one delivery plan were very clear on their purpose. To raise £1 million of recurring revenue income by 2020. We could not evidence reporting or staff awareness of delivery aginst this target. Some refererence has been made in normal budget reporting but this was not clear or easily linked to the commercial plan – it related to cost pressures.
- Some staff were also not clear on the strategic direction and

approach due to a new strategy still being developeld and no second year delivery plan in place.

- The Council has a Meduim Term Finanical Plan – we suggest this is reviewed and updated with a 'reality check' undertakn on the impact of current progress on the commerial plan key themes.

Areas of Good Practice

The Council is increasing it's traded services and commercial activities through selling internal services to buying private businesses. This supports the cultural change wanted by management to take the commercial agenda forward.

Strategically there is more corporate resource for commercial activity and the direction of travel for corporate support is positive.

There are large growth and development programmes of work including lesuire projects, crematorium, housing and town redevlopment which all support additional income.

Managing your risks

Good risk management, including maintaining risk registers, helps the Council to identify, understand and reduce the chance of risks having a negative impact on achievement of its objectives.

Commercial is already recorded on the strategic risk register. Management may wish to review the controls and mitigating actions to ensure they remain current and if effectuively actioned mitigate the risk.
The Council should review and understand its risk appetite for commercial programmes and projects. This is key in determining what work to take on and establish the overall risk exposure of the Council..
The Council needs to ensure that there is effective risk monitoring by the board for all projects, including detailed summary reports containing risk management information . Approporate risk information and escalation processes should be put in place for high risk and issues.

Management Response

The outcome of this audit is dissappointing. With the good outcomes around decision making, programme management and growth over recent months, it is clear that the management and oversight of the commercial strategy has been less than satisfactory. Whilst not an excuse, the changes of key personnell has been a specific factor in the outcome of this audit and as the new Management Structure settles in, then it is opportune to ensure we don't allow this situation to continue or happen to other work areas.

The actions proposed below are designed not just to remedy issues around Commercial Strategy but to ensure that all work areas, in particular those within the remit of the Programe Board, have appropriate oversight and scrutiny.

It should be noted that given this work was the remit of the Chief Executive and Commercial Director the new working arrangements will achieve greater oversight by ensuring the Commercial Strategy is now embedded within the the generic plans of the organisation with a specific section that aggregates the commercial activity to ensure our commercial culture is not lost.

In addition the new structure has also created a dedicated Programme and Performance Team whose role will ensure that all programme areas will be delivering quality documentation and record keeping, something clearly lacking in the underpinning of the Commerial Strategy over the last twelve months.

It is pleasing however, that Internal Audit have recognised, despite this dissapointing outcome, a number of commercial projects have been successfully delivered over the last two years and that those in train at this time continue to be well managed.

Management would like to thank the Internal Audit for their work on this audit and the constructiive approach to the actions and outcomes.

Appendix 2 – Audit Plan Schedule

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Quality Decision Making	Consultancy - review to provide insight and support on the Councils decision making process by reviewing a sample of key decisions.	May 17	May 2017	Aug 17	Complete Consultancy
Development Management Services Phase 2	Phase 2, provide assurance that improvement plans and changes have led to better outcomes and a sustainable Development Management Service.	May 17	May 17	Oct 17	Complete Substantial Planning and S106 Limited Planning Enforcement
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.	April 17	April 17	Oct 17	Complete Low Assurance
Housing Benefits Subsidy	Test a sample of benefit cases to on behalf of the external auditor KPMG to provide assurance on the subsidy claimed by the Council	Q2 July	July 17	Sept 17	Complete Substantial Assurance
Bank Rec	New system in place, audit requested by Finance manager to provide assurance that the new system is operating as intended and providing a robust bank rec Process.	July 17	Aug 17	Oct 17	Complete Substantial Assurance

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Procurement	Provide assurance on the procurement process and rationale. Review whether alternatives are considered as part of the process including partnerships, shared services and Commissioning.	Sept 17	Dec 17		WIP
Licensing	To provide assurance on the Licensing service and how it is managing safeguarding issues.	Oct 17	Oct 17	Nov 17	Complete Substantial Assurance
NK Partnership	Provide assurance on the monitoring and management of this key Partnership.	Aug 17	Aug 17	Dec 17	Complete Substantial Assurance
Sales and Invoicing	To provide assurance That managers understand the commercial principals of Traded services. To provide assurance that finance systems and invoicing are compatible with commercial aims.	Aug 17	Aug 17		Draft report
ICT Patch Management	Confirm that software updates and patches are effectively applied and monitored across the Councils key ICT applications.	Q4			To start Jan – Mar 18
Good Governance Ethics	Consultancy - Review the Council governance arrangements against recommended CIPFA best practice and provide assurance on the systems,	November 2017	Jan 2018		Terms of reference agreed.

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
	processes and outcomes.				
Combined Assurance	Document the Councils critical areas to provide an assurance rating to inform the audit plan and report to management and members.	Q3	Oct 17		Draft report awaiting Management final sign off.
Choice Based Letting's Follow Up	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	October 2017	October 2017		Draft report
Local land Charges Follow Up	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	October 2017	Nov 17		Draft report
Programme Board and Growth	Review the workings of the Programme Board and follow up on 2016 growth audit work and provide assurance on project and programme work in delivery.	Q4	Jan 2018		TOR agreed start Jan – Mar 18
Key Controls Finance	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's Financial control environment.	Q4			To start Jan – Mar 18
PCI DSS Follow up	A follow up review of the Limited assurance review carried out in 2016/17	Q4			To start Jan – Mar 18
Progress and	A follow up review of the	Q4			Initial

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Delivery Follow up	limited assurance review from 2016/17.				meeting booked Dec 2017
ARCUS ICT System – Consultancy	Review and provide advice on the Councils project management and approach to procuring this new ICT system	Q4			To start Jan – Mar 18
GDPR	Provide assurance on the Councils plans and preparedness for the new Data Protection rules roll out in 2018.	Q4			To start Jan – Mar 18

Appendix 3 - Overdue Audit Recommendations at 19th December 2017

Data is for audits where recommendations were due to be implemented by 19th December 2017

Activity	Issue Date	Assurance	Total Recs	Recs implemented	Priority of Recommendations o/s		
					High	Medium	Not yet due
ICT Infrastructure	August 2013	Limited	15	14	*1	0	0
Key Policies and Procedures 2016/17	Sept 2016	Substantial	12	11	0	1**	0
Totals			27	25	1	1	0

* Original date for completion 31.12.2103, revised date 31.03.2018.
**Original date for completion 31.03.2017, revised date 31.01.2018.

Appendix 4- Assurance Definitions[1]

High Assurance	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. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial Assurance	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. 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.
Limited Assurance	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. 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.
Low Assurance	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. 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.

[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- Details on overdue audit recommendations 2017/18

Name	No.	Priority	Finding	Ref	Status	Agreed management action	Date to be completed	Response Comments	Revised date for completion	Person responsible	Rating
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.	31/12/2017	The ICT strategy has been in development for some time and whilst a full strategy has not been agreed during that period the development and progression of Corporate ICT has continued to be developed. An ICT Strategic Overview was agreed with Corporate Policy and Resources in June 2015 and a draft strategy was produced in October 2016. In recent months we have had SOCITM undertaking work to review our current plans and carry out maturity surveys of IT and Digital provision. Whilst an IT strategy will be delivered this will now be aligned with the work on our Closer to the Customer (CTTC) programme and digital considerations which are currently being scoped with the assistance of consultancy expertise.	31/03/2018	Michelle Carrington	Limited Assurance

Name	No.	Priority	Finding	Ref	Status	Agreed management action	Date to be completed	Response Comments	Revised date for completion	Person responsible	Rating
Key Policies & Procedures	5	Medium	There is a corporate retention and destruction schedule which is located on the Council's Minerva site. This was last updated in 2014. Although key policies are stated within the retention policy, they are not explicitly stated individually but it is clear how long they have to be retained for. There is currently an ongoing corporate project 'Implementation of the Records Management Policy'. This has been rolling since 2015. This will not only bring the retention and destruction schedule up to date but will help to address document control such as naming conventions and versioning. Implications Without a records management policy providing clear direction on records retention and document control, staff have no approved guidance on how long they should retain key policies and procedures and there will potentially be an inconsistent approach to document control.	5.1	Not Implemented	Appropriate focus and scrutiny on the management of the project will be undertaken to realise the achievement of the objectives	31/12/2017	1. Presentation of project progress and next steps given to SLT members on 2/5/2017. 2. R&D Schedule being updated as information is identified. Included as an action on the GDPR Implementation project and planned for issue end Dec 2017/ Early Jan 2018.	31/01/2018	Steve Anderson - Information Governance Officer	Substantial

End of report

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West Lindsey District Council
The Entrepreneurial Council

Committee Governance and Audit Committee	
Date 16 January 2018	

Subject: Certification of Claims and Returns Annual Report 2016/17

Report by:	John Cornett, KPMG LLP (UK)
Contact Officer:	Tracey Bircumshaw Finance and Business Support 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

Legal:

None arising from this report.

Financial : FIN/125/18

The cost of the Housing Benefit Subsidy audit resulted in a charge of £6,176 and this has been contained within the existing budget provision.

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**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

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
- The Housing Benefits Subsidy claim had a value of £22,698,493
- The grant was certified on 5 December 2017

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

KPMG

Annual Report on grants and returns 2016/17

West Lindsey District Council

January 2018

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, 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.

Headlines

Introduction and background

This report to the Governance and Audit Committee summarises the results of work we have carried out on the Authority's 2016/17 grant claims under the Public Sector Audit Appointments (PSAA) arrangements.

We certified one claim – the Authority's 2016/17 Housing Benefit Subsidy claim. This had a value of £22,698,493.

Certification and assurance results

Our work in certifying the Housing Benefit Subsidy Claim included:

– agreeing standard rates, such as for allowances and benefit incomes, to the Department for Work and Pensions (DWP) Circular communicating the value of each rate for the year;

– sample testing of benefit claims 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.

A number of errors were identified during the sample testing and officers needed to provide further evidence to evaluate their impact, determine any amendments required and allow us to certify the claim. It took the Authority's managers and Internal Audit longer than expected to provide the information needed in the format required and the claim could not be certified and submitted to the DWP by the 30 November 2017 deadline.

The certified amended claim and Qualification Letter were submitted to DWP on 5 December 2017. The on-going payment by DWP of subsidy was not affected by this delayed certification.

Fee

The indicative fee for our work on the Council's 2016/17 Housing Benefit Subsidy was set by PSAA at £6,176. The matters arising this year has required us to do further work beyond that covered in the scale fee. We will discuss the additional work with management and if necessary apply to PSAA for a fee variation. We will update the Governance and Audit Committee if there are any further approved changes to the fee.

Summary of certification work outcomes

This table summarises the key issues arising from this year's work in certifying the Housing Benefit Subsidy Claim.

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Summary observations

Housing Benefit Subsidy

- Under the mandated approach for the claim's certification a sample of Benefit cases are tested to provide overall assurance on the accuracy of the Housing Benefit caseload and to confirm that the correct level of subsidy has been claimed by the Authority. At the Authority this initial testing is carried out by Internal Audit. We review their findings, re-perform an element of their testing and if possible rely on their work. We are required to assess any errors found against guidance issued by the Department of Works and Pensions (DWP), inform the Authority of the implications of the errors on our certification and agree any further testing required. This further testing could be:
  - 100% testing – further testing of all cases in the population where the type of error found could occur. This normally allows us to identify and correct any misstated entries on the claim.
  - 40+ testing – further testing of a sample of 40 cases selected randomly from the population where this type of error could occur. This approach is normally followed when there is a large number of cases in the population. The DWP guidance to auditors includes a standardised approach to estimating the possible total level of overpaid benefit, using the results of this 40+ extended testing.
- 29 Benefit cases were examined by Internal Audit as part of their initial testing, of which 6 cases contained errors. In all 10 errors were found. The level of errors identified by Internal Audit was generally higher than that identified in previous years. The errors and recommendations to support improvement were reported (August 2017) by Internal Audit to Benefits management and were referred to in their progress report to Governance and Audit Committee on 7th November 2017.
- Errors which resulted in an underpayment of benefit and where the nature of the error meant this would always lead to an underpayment if the error was repeated, were reported in our findings to DWP in the Qualification Letter which we submitted with the certified claim.
- There were also errors in the initial testing around eligible rent, extended payments periods and childcare cost deductions which had resulted in overpayments and where further testing was required. The Authority's managers opted to carry out 100% testing of these cases as they believed the 40+ approach could result in an unreliable estimate of the actual likely total amounts overpaid in the year. The 100% testing of similar cases was carried out by the Authority and Internal Audit, and their findings were reviewed by us.
- It took the Authority's managers and Internal Audit longer than expected to provide the information needed to support this testing in the format required and the claim could not be certified and submitted to the DWP by the 30 November 2017 deadline. The certified amended claim and Qualification Letter were submitted to DWP on 5 December 2017.
- The 100% testing resulted in the claim being amended for all the errors found, including under and over payments, resulting in a net increase of £37 in the amount of subsidy due to the Authority.
- We will discuss the matters arising from the 2016/17 work and the testing approach for the 2017/18 Claim with the Authority's managers and Internal Audit early in 2018, with the aim of avoiding any similar errors or testing difficulties as part of this year's work.

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West Lindsey District Council
The Entrepreneurial Council

Governance & Audit Committee	
16 January 2018	

Subject: Draft Treasury Management Strategy 2018/19

Report by:	Ian Knowles Director of Resources
Contact Officer:	Tracey Bircumshaw, Finance and Business Support Manager tracey.bircumshaw@west-lindsey.gov.uk Tel: 01427 676560

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

RECOMMENDATIONS:

1. **That Committee review, comment and scrutinise the Treasury Management Strategy and recommends its inclusion in the Medium Term Financial Plan, for the approval of Council;**

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/121/18

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 2017

Commercial Property Strategy

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**	**x**

Key Decision:

Yes		**No**	**x**

1. **Executive Summary**

1.1 The Council is required to approve a Treasury Management Strategy Statement for 2018/19 before 1 April 2018. In accordance with the constitution the Governance and Audit Committee are responsible for the scrutiny of the Council's Treasury Management Strategy and Policies. The Treasury Management Strategy is therefore attached before inclusion within the Medium Term Financial Strategy for the approval of Council.

1.2 The main elements of the Treasury Management Strategy are;

1.2.1 The Borrowing Strategy (para 3.4)

The key objectives of the Council's Borrowing Strategy are;

- To ensure that future external debt is affordable and sustainable within the long term within the revenue budget constraints.
- to borrow 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
- to potentially borrow in advance of need so that external debt (fixed rate funding) is arranged whilst interest rates are lower than they are projected to be over the next few years; and
- all external debt undertaken will be repaid on loan maturities

1.2.2 The Investment Strategy (para 4.4)

The main objective of the strategy is the security, liquidity and finally yield of the investment, in the context of the Councils risk appetite and through the mitigation of risks and in the context of risk appetite.

1.2.3 The Minimum Revenue Provision Policy (MRP) (Appendix A)

The Council will repay an element of borrowing annually in accordance with the MRP Policy as detailed below;

- Asset Life Method – debt repaid over the life of the asset
- Asset Life – Annuity Method – for regeneration schemes or admin projects where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate rate comparable with PWLB Rates
- Loan Principal repayment will be proxy for MRP for loans funded from borrowing

- Borrowing for Non Treasury Activity – MRP will be considered on a case by case basis as the intention is that the asset will be sold within the short/medium term and the capital receipt utilised to repay borrowing.

  Note: To mitigate the risk of loss of the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve has been created to fund any shortfall.

1.3 CIPFA are currently revising its "Prudential Code" and Treasury Management Code of Practice, in addition the Department of Communities and Local Government is undertaking a consultation on the proposed changes to the prudential framework for capital finance.

1.4 These reviews are particularly focused on 'non-treasury' investments, especially the purchase of investment property and commercial activities that aim to generate income, but which may require external borrowing (or the use of cash balances (internal borrowing) to finance such activities.

1.5 To provide transparency the Treasury Management Strategy now includes at 4.7 the Non-Treasury Investment Strategy in the context of the Commercial Investment Strategy previously approved by Corporate Policy and Resources Committee.

1.6 The Treasury Management Strategy including the Borrowing Strategy, Investment Strategy and Minimum Revenue Provision Policy are detailed below;

TREASURY MANGEMENT STRATEGY
Minimum Revenue Provision Policy and Annual Investment Strategy

INDEX

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, in that cash raised during the year will meet it cash expenditure. The treasury management function is to ensure that cash flow is adequately planned, ensuring cash is available when needed to meet our liabilities. Any surplus monies are invested in approved high level counterparties, financial instruments or externally managed funds commensurate with the Council's risk appetite. Ensuring security of investment and providing adequate liquidity before considering investment returns.

The second element of the treasury management function is to ensure the ability to fund the Council's capital investment decisions. A 5 year Capital Programme is therefore developed to provide a guide to the Council's borrowing need after taking account of the availability of other sources of funding, i.e. external grant, earmarked reserves, capital receipts, revenue and capital resources. The management of this longer term cash flow involves arranging short and long term borrowing (external borrowing) or may utilise longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

The Councils Corporate Plan identifies the Corporate Objectives of the Council and which then informs capital investment requirements. The 2018/19 to 2022/23 Capital Programme therefore includes significant capital investment which will require resourcing, from revenue, earmarked reserves, capital receipts, grant income, and borrowing.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as;

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

The treasury management activity involves substantial sums of money, which it borrows and invests. This exposes the Council to potential large financial risk, which can include the loss of invested funds, or the revenue consequence of changes in interest rates. Therefore the successful identification, control and monitoring of risk are integral to this function and include credit and counterparty risk, liquidity risk, market or interest rate risk, refinancing risk and legal and regulatory risk.

1.2 Reporting requirements

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

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

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

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

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy. (Appendix

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
- the policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. This is mandatory training for the Governance and Audit Committee and is delivered annually. This training was undertaken on 16 January 2018. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans which are included in the approved Capital Programme and which are the key drivers to treasury management activity. The output of the programme is reflected in the Council's prudential indicators, which are designed to provide Members with an overview and Members are asked to approve the capital expenditure forecasts:

Capital expenditure By Cluster £m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
People	1.808	1.457	4.913	9.096	1.074
Places	0.552	3.613	10.122	11.912	0.466
Policy and Resources	0.131	1.566	0.353	0.010	0.080
Investment Properties	0.093	6.000	14.000	0.000	0.000
Total	**2.584**	**12.636**	**29.388**	**21.018**	**1.620**

Capital expenditure can be financed from a range of external and internal sources. External sources include private sector contributions ie S106 developer agreements, as well as government grants. Internal sources include capital receipts, earmarked reserves, and revenue contributions.

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	0.405	0.905	0.700	0.325	0.440
External Grants	0.660	1.760	3.592	0.810	0.945
S106	0.000	0.158	0.000	0.000	0.000
Earmarked Reserves	1.459	2.161	5.524	4.596	0.235
Revenue Resources	0.025	0.002	0.000	0.000	0.000
Net financing need for the year	**0.035**	**7.650**	**19.572**	**15.287**	**0.000**

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

The forecast of Revenue and Capital Reserves after taking into account contributions to and from these reserves for both capital and revenue purposes are detailed in the table below;

Year End Resources £m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund Balance	4.838	2.707	2.651	2.621	2.621
Earmarked Reserves	13.334	12.541	8.638	5.370	6.527
Total Revenue Reserves	**18.172**	**15.248**	**13.940**	**7.991**	**9.148**
Capital receipts	2.895	2.434	1.827	1.980	1.868
Capital Grants Unapplied	0.153	0.006	0.006	0.006	0.006
Total Capital Reserves	**3.048**	**2.440**	**1.833**	**1.986**	**1.874**
Total Useable Reserves	**21.220**	**17.688**	**15.773**	**9.977**	**11.022**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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 by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £0.027m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement					
Accounting Adj	1.065	1.065	1.065	1.065	1.065
Finance Leases	0.122	0.027	0.000	0.000	0.000
Prudential Borrowing	0.032	7.556	27.063	42.323	41.985
Total CFR	**1.219**	**8.648**	**28.128**	**43.388**	**43.050**
Movement in CFR	**-0.188**	**7.429**	**19.480**	**15.260**	**-0.338**

Movement in CFR represented by					
Net financing need for the year (above)	0.035	7.650	19.573	15.287	0.000
Less MRP and other financing movements	0.223	0.221	0.093	0.027	0.338
Movement in CFR	**-0.188**	**7.429**	**19.480**	**15.260**	**-0.338**

Note: the MRP includes finance lease annual principal payments

3 BORROWING

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

3.1 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	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
CFR	1.219	8.648	28.128	43.388	43.050
Less Leases	0.122	0.027	0.000	0.000	0.000
Borrowing CFR	**1.097**	**8.621**	**28.128**	**43.388**	**43.050**
Less PWLB Borrowing	0.000	7.000	25.298	36.498	36.498
Over(-)/Under Borrowing	**1.097**	**1.621**	**2.830**	**6.890**	**6.552**
General Fund Balance	-4.838	-2.707	-2.651	-2.621	-2.621
Earmarked Reserves	-13.334	-12.541	-8.638	-5.370	-6.527
Capital receipts	-2.895	-2.434	-1.827	-1.980	-1.868
Capital Grants Unapplied	-0.153	-0.006	-0.006	-0.006	-0.006
Provisions	-1.000	-1.000	-1.000	-1.000	-1.000
Working capital*	1.301	-0.265	-0.265	-0.265	-0.265
Expected investments (-) /Borrowing	**-19.822**	**-17.332**	**-11.557**	**-4.352**	**-5.735**

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

3.2 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, 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), and internal borrowing as a percentage of the CFR.

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt					
Debt at 1 April	0.000	0.000	7.000	25.298	36.498
Expected change in Debt	0.000	7.000	18.298	11.200	0.000
Other long-term liabilities (OLTL)	0.342	0.122	0.027	0.000	0.000
Expected change in OLTL	-0.220	-0.095	-0.027	0.000	0.000
Gross external debt at 31 March	**0.122**	**7.027**	**25.298**	**36.498**	**36.498**
Internal Borrowing (at 31 March)	0.032	0.682	1.957	6.044	6.044
The Capital Financing Requirement	**1.219**	**8.648**	**28.128**	**43.388**	**43.051**
Internal Borrowing %	**2.63**	**7.89**	**6.96**	**13.93**	**14.04**

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 2018/19 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 or speculative 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.

3.3 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to be exceeded. 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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt	7.650	27.223	44.509	44.509
Other long term liabilities	0.027	0.000	0.000	0.000
Operational Boundary	**7.677**	**27.223**	**44.509**	**44.509**

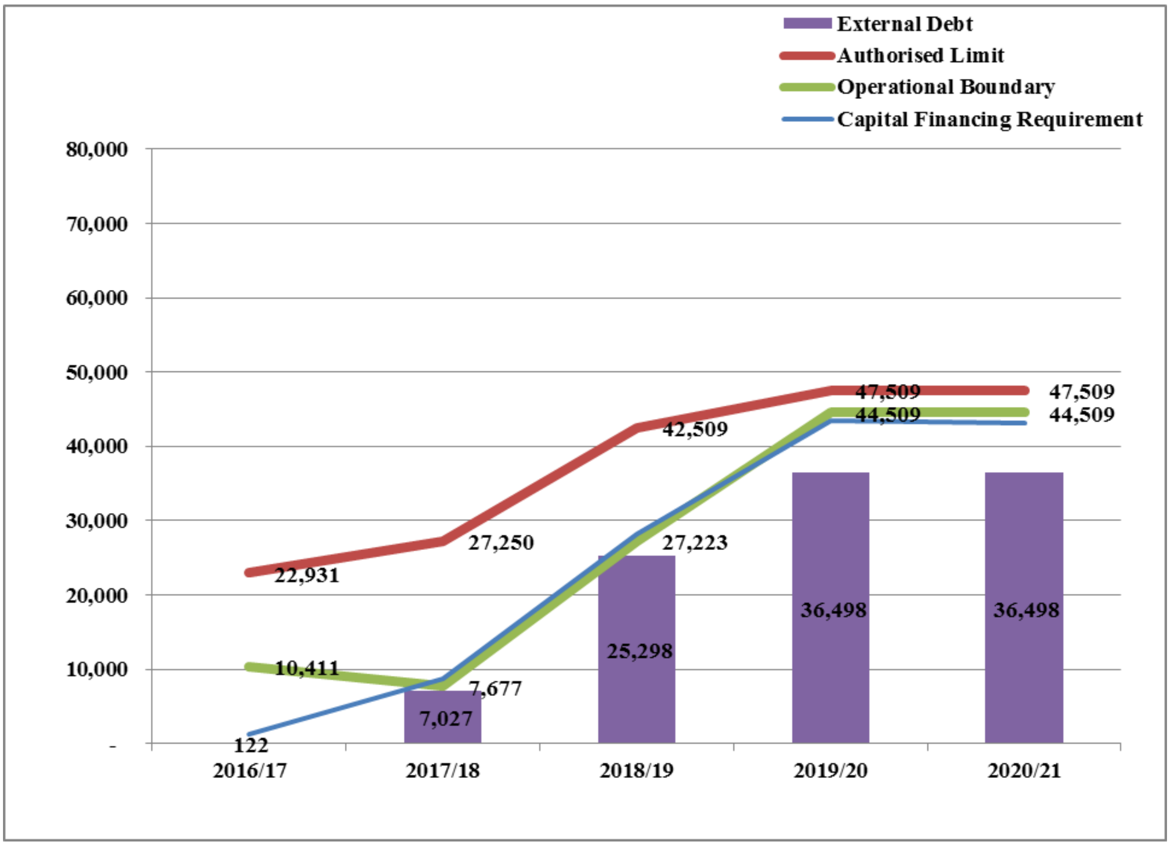
The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, 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	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Gross Debt*	27.223	47.509	47.509	47.509
Other long term liabilities	0.027	0.000	0.000	0.000
Authorised Limit	**27.250**	**47.509**	**47.509**	**47.509**

**Gross debt estimates allow for external borrowing in advance of need for up to a maximum of two years and includes additional headroom of £5m for unexpected cashflow movements.*

The graph below shows our projections of CFR and borrowing;



3.4 Prospects for interest rates

The Council has appointed Link 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-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

(A more detailed interest rate forecast and economic commentary are set out in appendices B and C)

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.5 Borrowing strategy

The Borrowing Strategy covers the relevant prudential and treasury indicators, and the current and projected debt positions as detailed above.

The key objectives of the Council's Borrowing Strategy are;

- To ensure that future external debt is affordable and sustainable within the long term within the revenue budget constraints.
- to borrow 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
- to potentially borrow in advance of need so that external debt (fixed rate funding) is arranged whilst interest rates are lower than they are projected to be over the next few years; and
- all external debt undertaken will be repaid on loan maturities

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 external 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 2018/19 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.

3.6 Policy on borrowing in advance of need

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

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

3.7 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

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

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

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

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

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

4.2 Creditworthiness policy

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

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

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

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds 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 Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 Link 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 covering the Council's investment criteria is the security of it's 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 the 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 be prudently 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 Link 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 possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

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 AA

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

   i. Short Term – F1
   ii. Long Term – A

- Banks 2 – Part nationalised UK bank, can be used provided the bank 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 the 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
- Supernational institutions
- Local Authority Property Asset Fund (CCLA)
- Corporate Bond Funds
- Covered Bonds

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 countyparty 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 mths
Gilts/Treasury Bills – where no loss of principal if held to maturity				£5m maximum exposure	5 years
Supranational				£5m per counterparty	1 year
Quality Corporate Bonds 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 and/or % Limit	Time Limit
Money market funds	AAA			£5m per counterparty	Overnight
Enhanced money market funds	AAA			£5m	5 years

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. 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

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). 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 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

The Council is expecting to have an average investment portfolio of £14.714m throughout 2018/19 and expects to receive investment income totalling £0.223m as shown below

Treasury Investment Portfolio	Average Portfolio £m	Interest Rate %	Interest £'000
Liquidity Investments	6.000	0.40	0.024
Short Term Investments	5.714	0.70	0.040
Long Term Investments	3.000	5.29	0.159
Total Investment Income (2018/19)			**0.223**

Investment treasury indicator and limit - total principal funds invested for greater than 365 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 & 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 365 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.

4.5 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.
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 years.

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.

4.6 End of year investment report

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

4.7 Non-Treasury Investments (Commercial Property)

An updated Treasury Management Code of Practice is soon to be published and based on recent consultation it is anticipated the Council will be required to include non-treasury investments within the Treasury Management Strategy. Ahead of the final Code being issued, high level details of the Council's future plans in relation to the purchase of investment properties are detailed below;

As part of the Capital Programme 2016/17 – 2020-21 approved in March 2016 the Council planned to invest £20m to create a Commercial Property portfolio, to generate a revenue return to support the future sustainability of the Council and therefore protecting the services of the Council. The net return was estimated to be £600k p.a. The approved £20m has now been re-profiled over the 2017/18 Capital Programme and the first acquisition was made in October 2017 at a cost of £2.4m.

The Commercial Property Strategy included the following principles;

The objective is for WLDC to increase the size of this portfolio by making a further investment of £20.0m in commercial property over the next 4 years to generate a target net income of £500,000 - £600,000 per annum.

Strategy

Working with the commercial property consultant, Cushman & Wakefield, officers have developed an investment strategy for the Council that aims to balance risk across the portfolio whilst achieving the target returns required.

The strategy will include;

1. Acquiring an investment portfolio of circa 8 commercial property assets in lot sizes of £1.0m to £4.0m, targeting an average lot size of circa £2.5m across the portfolio and total investment of £20.0m.

2. Authority to complete on acquisitions should be delegated to the Director of Resources reporting to the Leader of the Council, provided that the purchase is within agreed criteria. All assets will be assessed against these criteria and the Director of Resources will have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval. An example of how this scoring criteria will be applied is provided at Appendix D of the attached report.

3. A combination of reserves and borrowing will be used to fund acquisitions. Business case modelling will be developed using an opportunity cost of capital based on debt funded through Prudential Borrowing. The business case will be made on the basis of borrowing the full amount each time to ensure that resources are able to be recycled.

4. All assets will be acquired against a target hold period of 5 to 10 years with consideration given to asset management to enhance/protect value over the period of ownership (and any additional resource required/expected in this respect) and risks relating to disposal after the proposed hold period. A proportion of the income will be allocated for risk provision. Further returns would depend on investment performance relative to target and might be achieved through release of the risk provision and/or capital returns.

5. The financial position will be thoroughly monitored throughout the hold period and adequate response made to any change in market conditions and portfolio performance. Decisions regarding the funding of acquisitions will be made by the Director of Resources / s.151 officer and will be based on:
   - An analysis of disposal value risk after an assumed hold period

- The expectation that the asset will generate a capital return that tracks inflation or better with a provision for risk should this not be achieved

6. Access to suitably qualified/experienced resource is essential for successful delivery and management of the risks involved. Resources should be identified and ring-fenced to the activity. The property and asset team is currently being restructured to ensure that sufficient resources available to manage the existing assets and the new additions that would be acquired in line with this strategy.

5 APPENDICES

A Prudential and treasury indicators and MRP statement

B Interest rate forecasts

C Economic background

D Treasury management practice 1 – credit and counterparty risk management

E Approved countries for investments

F Treasury management scheme of delegation

G The treasury management role of the section 151 officer

APPENDIX A

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2020/21 AND MRP STATEMENT

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

5.2.1 Capital expenditure

Capital expenditure By Cluster £m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
People	1.808	1.457	4.913	9.096	1.074
Places	0.552	3.613	10.122	11.912	0.466
Policy and Resources	0.131	1.566	0.353	0.010	0.080
Investment Properties	0.093	6.000	14.000	0.000	0.000
Total	**2.584**	**12.636**	**29.388**	**21.018**	**1.620**

5.2.2 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend funded from borrowing (the CFR) each year 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;

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be charged, and therefore debt repaid over the expected useful life of the asset financed from borrowing 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) (option 3);

- **Asset life method – Annuity Method**
  Under this approach the debt is repaid over the expected useful life of the asset financed from borrowing. For, regeneration schemes 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 Principal repayment as proxy for MRP**
  The council considers that where borrowing has funded loan advances, the loan principal repaid (or in the event of default the realisation of security) as a capital receipt will be utilised to repay the borrowing and therefore negates the requirement to set aside an annual MRP charge.

- **Borrowing for Non-Treasury Investments**
  Where the Council borrows and anticipates a capital receipt will be realised within the short/medium term, ie for the acquisition of Commercial Investment Properties funded from borrowing, where the asset is to be held for a set period, and a capital receipt is expected to be realized at the end of this period, then the requirement to set aside a MRP to repay the debt will be considered on a case by case basis and in such cases, and with the agreement of the Auditor, MRP may not be applied subject to taking into account any risks, project profiles and revenue income streams from the investment.

  This is considered a prudent charge as the assets will be held for medium term period and the debt will be repaid upon sale of the asset.

  To mitigate the risk of loss of capital upon sale of any Commercial Investment Property, should the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve has been created to fund any shortfall.

- **Finance Leases**
  Repayment of principal included in finance lease repayments are applied as MRP**.**

These options provide for a reduction in the borrowing need over approximately the asset's life.

5.2.3 Affordability prudential indicators

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

a. Ratio of financing costs to net revenue stream

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

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Net Revenue Expenditure £m	**15.403**	**13.297**	**13.527**	**13.083**	**13.442**
Interest Payable £m	0	0	0.436	0.948	1.176
Interest Receivable (-) £m	-0.266	-0.172	-0.223	-0.183	-0.158
MRP £m	0.223	0.126	0.065	0.026	0.338
Capital Financing Charges	**-0.043**	**-0.046**	**0.278**	**0.791**	**1.356**
% Ratio	-0.28	-0.35	2.06	6.05	10.09

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

Interest receivable excludes interest from loans.

b. Incremental impact of capital investment decisions on council tax

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

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

£	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Council tax - band D	-1.31	-1.55	-16.45	-33.67	-25.12

5.1.4 Treasury indicators for debt

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

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

£m	**2018/19**	**2019/20**	**2020/21**
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only**	 100% 75%	 100% 75%	 100% 75%
Limits on variable interest rates • **Debt only** • **Investments only**	 25% 100%	 25% 100%	 20% 100%
Maturity structure of fixed interest rate borrowing 2018/19			
		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 to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
Maturity structure of variable interest rate borrowing 2018/19			
		Lower	Upper
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	0%
40 years to 50 years		0%	0%

APPENDIX B

INTEREST RATE FORECASTS 2017 – 2020

Link Asset Services Interest Rate View	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB Rate														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB Rate														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding

US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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 balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in

turn, could spill over into impacting the Euro, EU financial policy and financial markets.

- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

APPENDIX C

ECONOMIC BACKGROUND (as at November 2017)

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y).

However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

<u>Brexit timetable and process</u>

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- 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 could also exit without any such agreements in the event of a breakdown of negotiations.
- 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 full 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 D TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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 Managemen 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 requirement of both the Code and 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 the 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: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. 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 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 & Poors, 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 in the main report.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investment 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 investment 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 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	Enhance 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 Link 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.

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

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

APPENDIX E

APPROVED COUNTRIES FOR INVESTMENTS (As at 23.10.2017)

AAA

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

AA+

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

AA

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

AA-

- Belgium
- Qatar

APPENDIX F

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management 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;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Governance and Audit Committee

- review and scrutiny of the Treasury Management Strategy, policy and procedures and making recommendations to the full Council.

APPENDIX G

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.

Committee: Governance and Audit Committee

16 January 2018

Subject: Concurrent Meetings Protocol

Report by:	Alan Robinson Monitoring Officer
Contact Officer:	James Welbourn Democratic and Civic Officer james.welbourn@west-lindsey.gov.uk 01427676595
Purpose / Summary:	To clarify the protocol for the occasions where Prosperous Communities and Corporate Policy and Resources meet concurrently.

RECOMMENDATION:

1. **To adopt the concurrent protocol as outlined in the report;**

IMPLICATIONS

Legal: None.

Financial: FIN/133/18

There are no financial implications arising from this report

Title and Location of any Background Papers used in the preparation of this report:
Amendment to the Constitution to permit concurrent meetings of the two Policy Committees report – Full Council 4 September 2017

1. Summary

1.1 Following Full Council on 4 September 2017, Governance and Audit were tasked with establishing a protocol for running concurrent policy committee meetings.

2. Background

2.1 Currently, reports that require sign off from both the Prosperous Communities Committee and the Policy and Resources Committee go through each Committee in turn;

2.2 Concurrent Committees have taken place in other authorities. Both Westminster, and South Norfolk have held one-off meetings.

3. Protocol

3.1 Calling meetings
As per Part IV page 29 of the Constitution **and agreed by Council on 4 September 17** a concurrent meeting of the Policy Committees can be called by the Head of Paid Service “when it is considered prudent and efficient to do so.”

3.2 Consultation requirements
The Chairman of Prosperous Communities and the Chairman of the Corporate Policy and Resources Committee will be consulted, and their agreement sought prior to the meeting being formally announced as ‘concurrent’.

3.3 Agenda
A single agenda will be published – the meeting will consider the same report(s), but the recommendations will clearly state which Committee is being requested to pass which resolution(s).

3.4 Chairmanship
If in attendance, The Chairman of the Corporate Policy and Resources Committee (as the most senior committee of the Council, as specified in the Constitution) will Chair all concurrent meetings. The Chairman of Prosperous Communities Committee will act as Vice-Chairman for concurrent meetings.

In the absence of the Chairman of the Policy and Resources Committee the role of Chairman for the meeting will be allocated in the following priority order:-

- Chairman of Prosperous Communities;
- Vice -Chairman of Corporate Policy and Resources;
- Vice Chairman 1 of Prosperous Communities;
- Vice Chairman 2 of Prosperous Communities.

In the event that the Chairman of Prosperous Communities assumes the role of Chairman due to circumstances as outlined above, the position of Vice-Chairman will be allocated by way of the same priority order, to those positions mentioned above.

3.5 Quorum

No quorum will apply to the Concurrent Committee itself; the usual quorum will apply to each Committee (4). Those Councillors who are Members of both of the Policy Committees will be marked as present at each Committee.

There could be a situation whereby up to 6 Members are present at the concurrent meeting, but this would not necessarily mean that either of the Policy committees are quorate. In this case the usual rules would apply to inquoracy; ie no decisions could be taken and the meeting would be adjourned as per 8.2 of Part 4 of the Constitution. If there was a quorum for only one of the meetings, the following would occur:

- PC is quorate but CPR isn't – only the PC elements of the report could be agreed;
- CPR is quorate but PC isn't – nothing could be signed off as the policy should be agreed before the spend

3.6 Voting and Order of Decision making

Recommendations within concurrent reports will clearly include which Policy committee they apply to.

Only Members of the relevant Policy Committee can move recommendations relevant to that Committee.

Policy decisions required from the Prosperous Communities Committee will be taken in the first instance followed by the financial decisions required by the Corporate Policy and Resources Committee

There will be a separate vote for each Committee, each conducted by the Chair of the concurrent meeting

As it is likely a number of "dual-hatted" Members will be present, the casting of votes will be way of alphabetical roll call, to ensure only those committee Members permitted to vote do so.

Following both votes, the Chairman of the Concurrent Committee would then sum up proceedings, and confirm what had happened during each vote;

3.7 <u>Casting Vote</u>
The Chairman of the Concurrent Committee would not have an overall casting vote. The casting vote would remain with the Chairman of each Policy Committee.

In the event that either is not present the right of casting a vote would fall to their respective Vice-Chairman (Vice-Chairman 1 in the case of Prosperous Communities Committee)

3.8 <u>Substitutes</u>
Substitutes would be allowed for the Concurrent Committee subject to the standard rules in paragraph 4.3 of part 5 of the Constitution. If a Councillor is substituting for a dual-hatted Member (a member of both PC and CPR), then this would need to be made clear before the start of the meeting in writing to Democratic Services.

Note: - All procedure rules marked * (As referenced in paragraph 21 of Part V, Council Procedure rules) will apply to concurrent committee meetings as specified also, unless separately addressed by this procedure.

Governance and Audit Committee Work Plan

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.

Active/Closed	Active		
Date	**Title**	**Lead Officer**	**Purpose of the report**
13/03/2018	**Accounting Matters 2017/18 Closedown actuarial ass**	Tracey Bircumshaw	To present the Accounting Matters 2017/18 Closedown Report and actuarial assumptions
	Combined Assurance Report 2017/18	James O'Shaughnessy	To present the Combined Assurance Report
	Draft Internal Audit Plan 18/19	Tracey Bircumshaw	To present the Draft Internal Audit Plan 18/19
	External Audit Plan 17/18	Tracey Bircumshaw	To present the External Audit Plan 17/18
	Internal Audit Charter	Tracey Bircumshaw	To provide independent and objective assurance on critical activities and key risks
	Member Champions	James Welbourn	To inform Members of the work that has been carried out on the current Member Champions and to document the next steps that will be taken for future appointments.

17/04/2018	**Strategic Risks - 6 month update**	James O'Shaughnessy	To present the 6 monthly update
	Constitution Annual Review	Alan Robinson	To present the Annual Review of the Constitution
	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
	Internal Audit Q4 Monitoring	Tracey Bircumshaw	To present the final quarter monitoring report
	AGS 2017/18	James O'Shaughnessy	Final review and approval of the AGS 2017/18 and Action Plan
19/06/2018	**Draft AGS 2017/18**	James O'Shaughnessy	Present the draft AGS 2017/18 and action plan
24/07/2018	**Closedown - approval of the accounts**	Tracey Bircumshaw	Approve the 2017/18 SoA
Grand Total			