West Lindsey District Council

Guildhall Gainsborough
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AGENDA

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

Governance and Audit Committee
Tuesday, 15th January, 2019 at 2.00 pm
The Council Chamber - The Guildhall

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** (PAGES 3 - 8)
   To confirm the minutes of the meeting held on 6 November 2018.
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 9 - 11)
   Matters Arising schedule setting out current position of previously agreed actions as at 7 January 2019.
6. **Public Reports for Consideration**
   i) Certification of Grants and Claims Annual Report (PAGES 12 - 18)
   ii) Draft Treasury Management Strategy and Minimum (PAGES 19 - 79)

Revenue Provision (MRP) Policy

Mark Sturgess
Head of Paid Service
The Guildhall
Gainsborough

Monday, 7 January 2019

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 6 November 2018 commencing at 2.00 pm.

Present: Councillor Mrs Jackie Brockway (Chairman)

Councillor Mrs Sheila Bibb
Councillor David Bond
Councillor John McNeill
Councillor Mrs Anne Welburn
Councillor Mrs Angela White
Alison Adams
Andrew Morriss

In Attendance:

Ian Knowles	Executive Director of Resources and S151 Officer
Mark Sturgess	Executive Director of Operations and Head of Paid Service
Alan Robinson	Strategic Lead Governance and People/Monitoring Officer
Tracey Bircumshaw	Strategic Finance and Business Support Manager
Andy Gray	Housing and Enforcement Manager
Jeanette Arnold	Assurance Lincolnshire
Natalie Kostiuk	Customer Experience Officer
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
Ele Durrant	Democratic and Civic Officer
Megan Rose	Assurance Lincolnshire
John Sketchley	Assurance Lincolnshire
James Welbourn	Democratic and Civic Officer

Apologies: Councillor Giles McNeill
Peter Walton

Membership: Councillor Giles McNeill was substituted by Councillor Mrs Anne Welburn

30 PUBLIC PARTICIPATION PERIOD

There was no public participation.

31 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 24 July 2018 were approved as a correct record.

32 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests at this point in proceedings.

33 MATTERS ARISING SCHEDULE

The matters arising schedule was presented to Members, and was subsequently noted by them.

34 LOCAL GOVERNMENT OMBUDSMAN (LGO) ANNUAL REVIEW LETTER 2018

Members considered a report on the Local Government Ombudsman (LGO) annual review letter for the 2017-18 period; this report examined upheld complaints, benchmarking and trends.

The following points were highlighted:

- In future years it would be helpful to have more comparators, such as year on year figures to provide a fuller picture;

- Any changes to the reception area at the Guildhall would be considered as part of the wider building re-design;

- Actions were being taken to drive performance upwards.

RESOLVED to welcome the report from the Local Government Ombudsman and acknowledge the work which has been undertaken to incorporate the learning from the report's findings into how West Lindsey District Council works as an organisation.

35 MEMBER DEVELOPMENT – DRAFT PROGRAMME FOR INDUCTION 2019

Members considered a report on the draft programme for the 2019 Member Induction, which included discussions to date within the Member Development Group (MDG).

The following points were highlighted during discussions between the Democratic and Civic Officer, and Members:

- This was still a work in progress; the main aspect being looked at was the draft schedule;

- A Member had given feedback to the Democratic and Civic Officer from outside of the MDG; this feedback came from their induction as a new Member in 2015.

  Prospective and current Councillors would have warning of the amount of time they would need to commit to immediately after the next District Council election should they be successful, via the Candidate's Pack;

Note: Both Councillor Welburn and Councillor John McNeill declared an interest as they both took part in the Member Development Group.

- Additional support would be provided by Democratic Services during the process, along with a 'buddy' system which would allow Members to lean on one particular officer during the induction period;

- There would be a secondary induction after 3-6 months for those Members that required it.

RESOLVED to approve the draft schedule for the 2019 Member Induction.

36 INTERNAL AUDIT QUARTER 2 PROGRESS REPORT 2018/19

Members considered the Internal Audit Quarter 2 Progress report. This detailed progress against the 2018/19 annual programmes agreed by the Governance and Audit committee in March 2018.

Assurance Lincolnshire and the Housing and Enforcement Manager highlighted the following points:

- The following work had been completed during Quarter 2; the levels of assurance are stated next to each piece of work:
    1. Key Control testing, Treasury Management, Council Tax and Corporate Fraud – High Assurance;
    2. Housing Benefit Subsidy Testing – High Assurance;
    3. Budget Management – High Assurance;
    4. Financial Strategy and Budget Preparation – High Assurance;
    5. Key Control Testing Property Plant and Equipment – Substantial Assurance;
    6. Food Safety and Environmental Protection – Limited Assurance.

- It had been hoped that the Leisure Contract consultancy would have been completed; however the report was still being finalised. The work had been positive; no assurance would be attached to that work, but if it had been, it would be good/high;

- A limited assurance had been given on the Payment Card Industry Data Security Standard (PCIDSS);

- Food Safety and Environmental Protection was an area of the service that hadn't gone through an audit before; some of the actions detailed in this section of the report had been completed;

Following this introduction, discussions with Members provided further comment;

- There were three outstanding actions in the report, which was a more positive position compared to previous years.

  When a completion date for an outstanding action was given, it would be with the best of intentions; the aim would be to stick to these dates, and only extend a deadline when absolutely necessary. Completion dates should be realistic;

- The quantity of outstanding actions was low which was pleasing, but in some cases more detail on the progress of outstanding actions was desired;

- The finance team were commended for their high assurance levels; West Lindsey was one of the few authorities in the country to get an unqualified audit from the Department for Work and Pensions (DWP);

- Internal Audit were confident they had sufficient resources to deliver the remainder of the audit plan within the given timescales.

RESOLVED that Members note the content of the report.

37 ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Prior to considering the item on the Effectiveness of Internal Audit, all Members present indicated that they were comfortable for the Auditors to remain within the meeting room to hear any discussion.

Members then considered a report on the effectiveness of the internal audit service provided by Assurance Lincolnshire. This year's review included:

- the adopted methodology for assessing effectiveness;
- questions that West Lindsey District Council (WLDC) had asked of Assurance Lincolnshire;
- how Assurance Lincolnshire had delivered the Internal Audit Plan;
- the Internal Audit Charter;
- benchmarking;
- the role of the Governance and Audit committee.

WLDC asked themselves a number of questions; when the answers to these questions were taken along with all of the above topics, WLDC believed that Assurance Lincolnshire were providing a good service. The consultancy arm of Assurance Lincolnshire was well valued, and the Governance and Audit committee use, and rely on the service provided.

Members of the committee added that a big concern had always been developing organisational complacency; there was no suggestion of complacency through this report. Also commented on was the ease of accessibility to the auditors.

Note: Councillor John McNeill declared an interest as he knew Jeanette Arnold of Assurance Lincolnshire from a previous employment.

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

38 EXPENDITURE ON AGENCY AND CONSULTANTS 2017/18

Members considered the annual report on the expenditure incurred during 2017/18 on the engagement of externally appointed temporary and agency staff and consultants.

The following points were highlighted:

- The value that consultants had added would be contained within the report in future years.

  Examples from the last year were given of the expert ecologist that helped with the Marina/Green Corridor funding bid, and the procurement specialist on the Leisure management contract that contributed to the saving of £269k per annum;

- Almost half of the expenditure on interim/agency staff was on operational services, which ensured seasonal work, operational cover and service delivery were maintained;

- The recommendation could have been worded in such a way to capture that Members had been assured that the use of agency staff and consultants was reasonable;

- WLDC were trying to develop a more flexible workforce, by looking at more temporary contracts, and by using interim arrangements where they were appropriate.

  Many of the staff employed seasonally had come through Surestaff;

- When third parties were commissioned to provide services, it was their expertise and professionalism that was being purchased, rather than them being an interim employee.

RESOLVED to accept the content of the report.

39 ANNUAL AUDIT LETTER 2017/18

Members received the Annual Audit Letter summarising the audit work for the financial year.

RESOLVED to approve the Annual Audit Letter.

40 ANNUAL FRAUD REPORT 2017/18

Members considered an overview of fraudulent activity identified and investigated during 2017/18. They also considered whether appropriate policies and procedures were in place to counter fraudulent activity.

The following points were highlighted:

- The instances of Council Tax fraud totalled £16,085.15;

- Schedules of low repayment had been put in place to attempt to claw back council tax overpayments. Corporate Policy and Resources committee would approve any write-offs;

- There was a medium risk of an IT/Data breach; there were times when individuals share data when this wouldn't be suitable;

- There had been no corporate fraud during 2017/18, and nothing had been pointed out by members of the public, or WLDC staff;

- The key risks for WLDC were as they had been for a number of years;

- National figures suggested fraud was a big issue, but WLDC were not finding fraud in significant areas other than benefits and council tax;

- Around £6 million was paid out per year in benefits; investigations have shown £16k of benefit fraud. £16k was a low number but work was ongoing to find the fraud. Most of the work going into this used credit reference agencies, and other methods to secure the benefits system around an area of high risk;

- Officers should continue to concentrate on staffing and procedures rather than the shorter-term needs of committees;

Members pointed out that a useful addition to the report for future years would be a 'case-study' appendix which would give reassurance that certain areas of fraud awareness were being looked at.

> **RESOLVED** to endorse the content of the report and support the ongoing counter-fraud work protecting the Council's interests.

41 WORKPLAN

The workplan for the next 12 months was outlined by the Democratic and Civic Officer, and was noted by Members.

The meeting concluded at 3.07 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	Due Date	Allocated To
Black				
	Treasury Management Training	**The Treasury Management Training is planned to be prior to the January meeting of Governance and Audit, from 12:30-13:30.** **This allows for a 30 minute break before the main meeting.**	**15/01/19**	**James Welbourn**

	Periodic reviews of AGS	**The Chairman had agreed these as being OK to come to Committee every 6 months - this needs relaying to Committee. These reports can be difficult to bring quarterly; the first quarter does not always have enough data to provide a worthwhile report.**	**06/11/18**	**James O'Shaughnessy**
Green				
	Constitution Annual Review	**Questions/Motions at Annual Council, and Planning site visits are to be added into this work.**	**12/03/19**	**Alan Robinson**

	Benchmarking of consultants	**During the committee meeting on 6 November, the Finance Manager agreed to look at some formal benchmarking on salary costs compared with other Councils. This is to be emailed round to all Governance and Audit committee members.**	**12/03/19**	**Tracey Bircumshaw**

Governance and Audit Committee	
Tuesday, 15 January 2019	

Subject: Certification of Grants and Claims Annual Report

Report by:	Executive Director of Resources
Contact Officer:	Tracey Bircumshaw Strategic Finance and Business Support Manager tracey.bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	To present the Annual Claims and Returns Report from our External Auditor KPMG.

RECOMMENDATION(S):

1. That Members accept the contents of the report.

IMPLICATIONS

Legal: None arising from this report

Financial : FIN/179/19/TJB The cost of the Housing Benefit Subsidy audit resulted in a charge of £5,796 due to additional testing undertaken this is £2,100 above the indicative fee, but has been approved by the Public Sector Auditor Appointments (PSAA) (£6,176 2017/18) and this has been contained within the revenue budget.

Staffing: None from this report.

Equality and Diversity including Human Rights : None 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

1. Executive Summary

1.1 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 £22m
- The grant was certified on 19 September 2018
- There were no significant issues identified

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Our ref KPMG/WLDCBEN01

Contact John Cornett
0116 256 6064

05 December 2018

Dear Ian

West Lindsey District Council - Certification of claims and returns - annual report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on only one claim or return, the Housing Benefit Subsidy claim. The certified value of the claim was £22 million, and we completed our work and certified the claim on 19th September.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit 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.

Our work did not identify any significant issues or errors and we certified the claim without amendment and no qualification letter.

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

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £3,696. Our actual fee (£5,796) was higher than the indicative fee and is subject to PSAA approval. This is due to the additional work we completed on re-performing testing of housing benefit cases undertaken by the authority. The 2017/18 fee of £5,796 compares to the 2016/17 fee of £6,176.

Yours sincerely

John Cornett
Engagement Lead

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

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

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

Governance and Audit
Tuesday, 15 January 2019

Subject: Draft Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy

Report by:	Executive Director of Resources
Contact Officer:	Tracey Bircumshaw Strategic Finance and Business Support Manager tracey.bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	To seek approval for the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Policy and Capital Investment Strategy to facilitate effective financial management and planning.

RECOMMENDATION(S):

1. **That Committee review, comment and scrutinise the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2019/20 and recommend to Full Council.**

2. **To review, comment and scrutinise the Capital Investment Strategy in conjunction with the Treasury Management Strategy.**

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-178-19-CC

There are no direct financial implications arising from this report.

Staffing :

None from this report

Equality and Diversity including Human Rights :

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.

Net Cost of Services Risk: Under IFRS9 amendments in 2018/19 there is a risk that adverse fair value valuations for some investments (such as the Property Fund) would have a direct negative impact on the Comprehensive Income and Expenditure Statement for Net Cost of Services.

This risk will be mitigated for 5 years by a statutory over-ride recently approved by Government.

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. Risk to the Net cost of services due to the implementation of IFRS9 will be mitigated through the creation and maintenance of a reserve for Investments Volatility Reserve, this will prevent any adverse change in valuation have a direct impact on the Comprehensive Income and Expenditure Statement. Ongoing review and maintenance of this reserve will be required each year.

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

Climate Related Risks and Opportunities :

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

Prudential Code for Capital Finance in Local Authorities 2017 Treasury Management in Public Services: Guidance Notes 2018 All papers are located in the Financial Services section, Guildhall

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**	**x**	**No**	

Executive Summary

1. **Executive Summary**

1.1 The Council is required to approve a Treasury Management Strategy Statement for 2019/20 before 1 April 2019. 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 for the approval of Council. In addition the Capital Investment Strategy, which has direct links to the Treasury Management Strategy is also provided for your scrutiny.

1.2 The main elements of the Treasury Management Strategy are;

1.2.1 The Borrowing Strategy (para 3.5)

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 i.e. 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.

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

The Council will repay an element of prudential 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 To provide transparency the Treasury Management Strategy 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.

1.4 The Treasury Management Strategy including the Borrowing Strategy, Investment Strategy and Minimum Revenue Provision Policy are attached below.

1.5 The Capital Investment Strategy is attached at Appendix 1 for consideration. The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon.

The Capital Investment Strategy provides a framework to enable both revenue and capital investment decisions which contribute to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

The strategy defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending, and sets out how the resources will be managed.

TREASURY MANGEMENT STRATEGY
Minimum Revenue Provision Policy and Annual Investment Strategy

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1 INTRODUCTION

1.1 Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. A 5 year Capital Programme is therefore developed to provide a guide to the borrowing need of the Council after taking into account the availability of other sources of funding, i.e. external grant, earmarked reserves, capital receipts, revenue and capital resources. The management of longer-term cash may involve arranging long or short-term loans (external borrowing), or using longer-term cash flow surpluses in lieu of external borrowing (internal borrowing). On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Councils Corporate Plan identifies the Corporate Objectives of the Council and which then informs capital investment requirements. The 2019/20 to 2023/24 Capital Programme therefore includes significant capital investment which will require resourcing, from revenue, earmarked reserves, capital receipts, grant income, and borrowing.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

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

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.

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management reporting

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 is forward looking and 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 is a backward looking review documents and 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 2019/20

The strategy for 2019/20 covers two main areas:

Capital issues

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

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 15 January 2019. 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council currently uses Cushman and Wakefield in relation to this activity.

2. THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
People	0.938	1.599	1.885	0.890	1.722
Places	2.716	7.582	19.533	5.831	3.640
Policy and Resources	0.390	0.418	0.280	0.097	0
Investment	2.490	20.509	0	0	0
Total	**6.534**	**30.108**	**21.698**	**6.818**	**5.362**

Capital expenditure can be financed from a range of external and internal sources. External sources include private sector contributions i.e. 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 financing need i.e. borrowing.

Financing of capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	0.344	0.050	0.687	0.850	0.615
External Grants	0.634	1.361	3.340	1.742	3.188
S106	0.160	0.000	0.360	0.000	0.000
Earmarked Reserves	1.786	3.654	3.614	3.892	1.559
Revenue Resources	0.00	0.000	0.000	0.000	0.000
Net financing need for the year	**3.610**	**25.043**	**13.696**	**0.334**	**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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund Balance	3.913	2.593	2.401	2.401	2.401
Earmarked Reserves	12.636	13.135	10.501	7.026	5.985
Total Revenue Reserves	**16.549**	**15.728**	**12.902**	**9.427**	**8.386**
Capital receipts	3.014	3.313	3.151	2.791	2.237
Capital Grants Unapplied	0.368	0.000	0.000	0.000	0.000
Total Capital Reserves	**3.382**	**3.313**	**3.151**	**2.791**	**2.237**
Total Useable Reserves	**19.931**	**19.041**	**16.053**	**12.218**	**10.623**

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 it’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the 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 is asked to approve the CFR projections below:

£m	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Capital Financing Requirement					
Accounting Adj.	1.065	1.065	1.065	1.065	1.065
Finance Leases	0.027	0.000	0.000	0.000	0.000
Prudential Borrowing	3.624	28.448	42.119	42.117	41.548
Total CFR	**4.716**	**29.513**	**43.184**	**43.182**	**42.613**
Of which: Commercial Investment Property	**2.490**	**23.000**	**23.000**	**23.000**	**23.000**
Movement in CFR	**3.497**	**24.797**	**13.672**	**-0.002**	**-0.569**

Movement in CFR represented by					
Net financing need for the year (above)	3.610	25.043	13.696	0.334	0.000
Less MRP and other financing movements	0.113	0.199	0.024	0.336	0.569
Less unwinding of capital expenditure	0.000	0.047	0.000	0.000	0.000
Movement in CFR	**3.497**	**24.797**	**13.672**	**-0.002**	**-0.569**

Note:

1. *In 2017/18 and 2018/19 the MRP includes finance lease annual principal payments*

2. *In 2017/18 £0.047m of inter-company loans was capitalised. There is no requirement to capitalise this type of financial transaction, therefore it is being removed from the CFR in 2018/19*

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	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
CFR	4.716	29.513	43.184	43.182	42.613
Less Leases	0.027	0.000	0.000	0.000	0.000
Borrowing CFR	**4.689**	**29.513**	**43.184**	**43.182**	**42.613**
Less PWLB Borrowing	0.000	20.510	33.863	33.863	33.863
Over(-)/Under Borrowing	**4.689**	**9.003**	**9.322**	**9.319**	**8.750**
General Fund Balance	-3.913	-2.593	-2.401	-2.401	-2.401
Earmarked Reserves	-12.636	-13.154	-10.520	-7.045	-6.004
Capital receipts	-3.014	-3.313	-3.151	-2.791	-2,237
Capital Grants Unapplied	-0.368	-0.000	-0.000	-0.000	-0.000
Provisions	-1.000	-1.000	-1.000	-1.000	-1.000
Working capital*	0.703	-0.272	-0.272	-0.272	-0.272
Expected investments (-) /Borrowing	**-15.539**	**-11.329**	**-8.022**	**-4.190**	**-3.164**

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

3.2 Current portfolio position

The Council's forward projections for borrowing 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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	0.000	0.000	20.510	33.863	33.863
Expected change in Debt	0.000	20.510	13.353	0.000	0.000
Other long-term liabilities (OLTL)	0.122	0.027	0.000	0.000	0.000
Expected change in OLTL	-0.095	-0.027	0.000	0.000	0.000
Gross external debt at 31 March	**0.027**	**20.510**	**33.863**	**33.863**	**33.863**
Internal Borrowing (at 31 March)	3.610	8.143	8.486	8.820	8.820
The Capital Financing Requirement	**4.716**	**29.513**	**43.184**	**43.182**	**42.613**
Internal Borrowing	**76.54%**	**27.59%**	**19.65%**	**20.43%**	**20.70%**

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 Executive 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	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt	28.653	43.184	43.182	42.613
Operational Boundary	**28.653**	**43.184**	**43.182**	**42.613**

**External debt includes additional headroom of £2m for unexpected cash flow movements.*

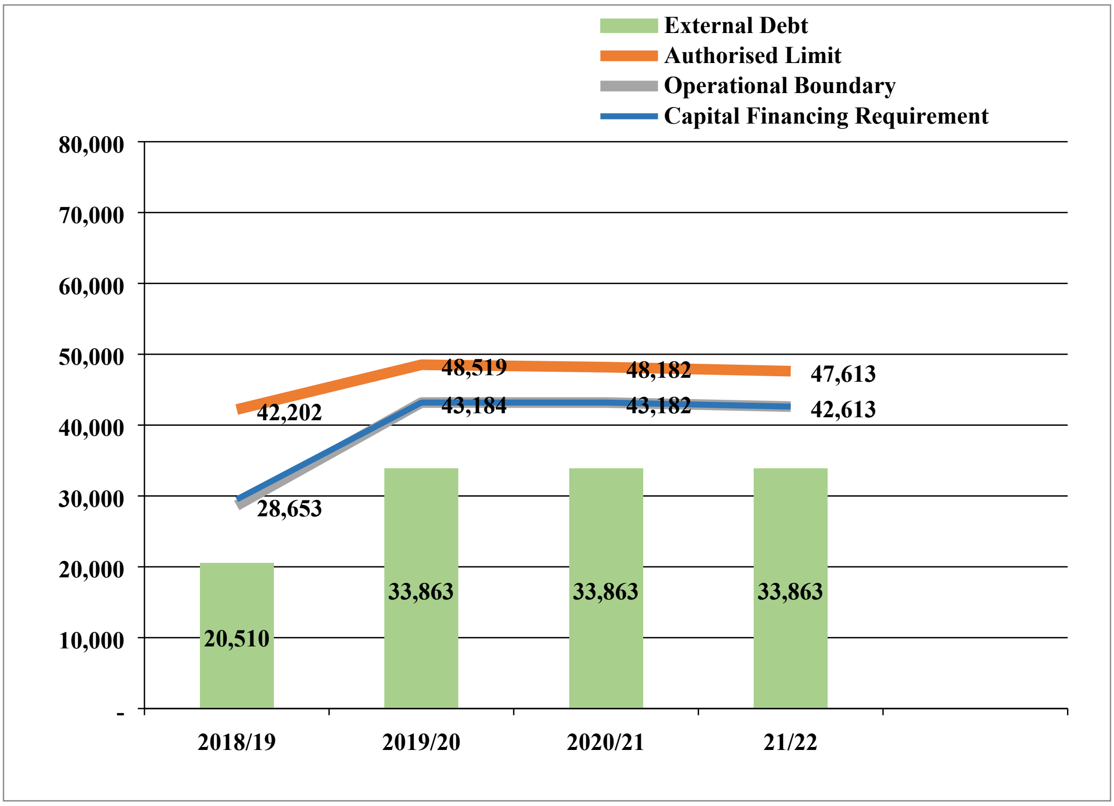
The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, 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	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Gross Debt*	42.202	48.519	48.182	47.613
Authorised Limit	**42.202**	**48.519**	**48.182**	**47.613**

**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 cash flow 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.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	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)

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. 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, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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 i.e. 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 2019/20 treasury operations. The Executive 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 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 – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") 2017.
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second, then yield (return).

In accordance with the above guidance from the MHCLG 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.

As a result of the change in accounting standards for 2018/19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

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 its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing 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 Executive 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 & Poor's 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 & Poor's	Money Limit	Time Limit
Banks 1 – up to 1 year	**F1**	**P1**	**A1**	**£5m per counterparty at Group level**	**1 year**
Banks 1 – over 1 year	**AA**	**Aa2**	**AA**	**£2m maximum exposure**	**1 year to 5 years**
Banks 2 – UK part nationalised				**£5m per counterparty at Group Level**	**1 year**
Banks 3 – Council's own bank if not covered by 1 or 2				**£1m**	**1 Day**
Other Local Authorities				**£5m per counterparty**	**5 years**
Housing Associations				**£1m maximum exposure**	**6 mths**
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**

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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 cash flows are adequate over the medium term.

Investment returns expectations.

Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

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:

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
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

The overall balance of risks to economic growth in the UK is probably neutral.

The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The Council is expecting to have an average investment portfolio of £12.310m throughout 2019/20 and expects to receive investment income totalling £0.242m as shown below

Treasury Investment Portfolio	Average Portfolio £m	Interest Rate %	Interest £'000
Liquidity Investments	8.400	0.72	0.060
Other Investments	0.910	4.00	0.036
Long Term Investments	3.000	4.85	0.146
Total Investment Income (2019/2019)			**0.242**

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)

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 based on the approved £20m investment limit. The first acquisition was made in October 2017. The Council's portfolio currently consists of 5 properties, with £12.967m having been spent on these acquisitions (includes costs).

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. In May 2018 the Corporate Policy and Resources Committee agreed to increase the total investment figure to £30m. This was on the basis that the individual target lot size should be increase to a maximum of £10m to take advantage of a segment of the market which was less competitive. The increase in total spend was required to maintain a risk managed portfolio at the higher value lot size.

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. To acquire an investment portfolio of commercial property assets in lot sizes of £1.0m to £10.0m, targeting an average lot size of circa £3.5m to £4m across the portfolio and total investment of £30.0m.

2. Authority to complete on acquisitions should be delegated to the Executive Director of Resources in consultation with the Leader of the Council, provided that the purchase is within agreed criteria. All assets will be assessed against these criteria and the Executive 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 Executive 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 has been 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.

4.8 Capital Investment Strategy

The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon. The Strategy has direct links to the Treasury Management Strategy and it is therefore appropriate that the Governance and Audit Committee scrutinise and provide assurance to Council on both policies. **The Capital Investment Strategy is attached at Appendix 1.**

5 APPENDICES to the Treasury Management Strategy

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

H The Capital Investment Strategy

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
People	0.938	1.599	1.885	0.890	1.722
Places	2.716	7.582	19.533	5.831	3.640
Policy and Resources	0.390	0.418	0.280	0.097	0
Investment Property	2.490	20.509	0	0	0
Total	**6.534**	**30.108**	**21.698**	**6.818**	**5.362**

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).

MHCLG 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, i.e. 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 realised 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**.**

Voluntary MRP Overpayments – The Council has the ability to repay additional amounts for MRP as voluntary contributions as it considers appropriate.

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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Net Revenue Expenditure £m	**13.895**	**15.347**	**13.042**	**13.028**	**13.295**
Interest Payable £m	0	0.154	0.774	1.184	1.184
Interest Receivable (-) £m	-0.263	-0.206	-0.206	-0.207	-0.230
MRP £m	0.098	0.172	0.024	0.336	0.569
Capital Financing Charges	**-0.165**	**0.120**	**0.592**	**1.313**	**1.523**
% Ratio	-1.192	0.783	4.540	10.087	11.457

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

£	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council tax - band D	-0.31	2.20	10.36	10.68	10.94

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	**2019/20**	**2020/21**	**2021/22**
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 2019/20			
		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%	50%
Maturity structure of variable interest rate borrowing 2019/20			
		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 2018 – 2022

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.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been 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, emerging market developments and sharp changes in investor sentiment. 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.

APPENDIX C

ECONOMIC BACKGROUND (as at December 2018)

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

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. A new period has already started in the US, and more recently in the UK, of 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 a 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 also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward 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, conversely, 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.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in September, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.2%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.8%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP 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. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, 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.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority Eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **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 QE, 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.
- 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,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25 November 2018 EU27 leaders endorsed the withdrawal agreement
- 21 December 2018 to 8 January 2019 - UK Parliamentary recess
- January 2019 Vote in UK Parliament on the agreement
- By 29 March 2019 then ratification by EU Parliament requires a simple majority
- By 29 March 2019 if UK and EU parliaments agree the deal, EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29 March 2019 UK leaves the EU (or asks the EU for agreement to an extension of the Article 50 period if UK Parliament rejects the deal and no deal departure?)
- 29 March 2019: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- 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 may leave the single market and tariff free trade at different times during the 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.

APPENDIX D TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

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

Annual investment strategy – The key 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, housing association, 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 & Poor's, Moody's and/or Fitch rating agencies

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out 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 04.12.2018)

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- 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 and mid-Year 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, and Mid-Year Treasury Management Strategy, policy and procedures and making recommendations to the full Council.

APPENDIX G

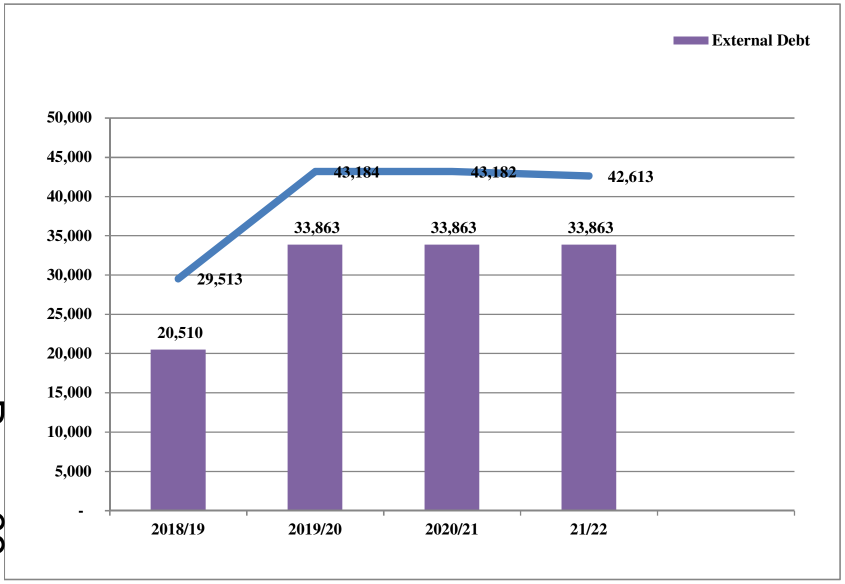
THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

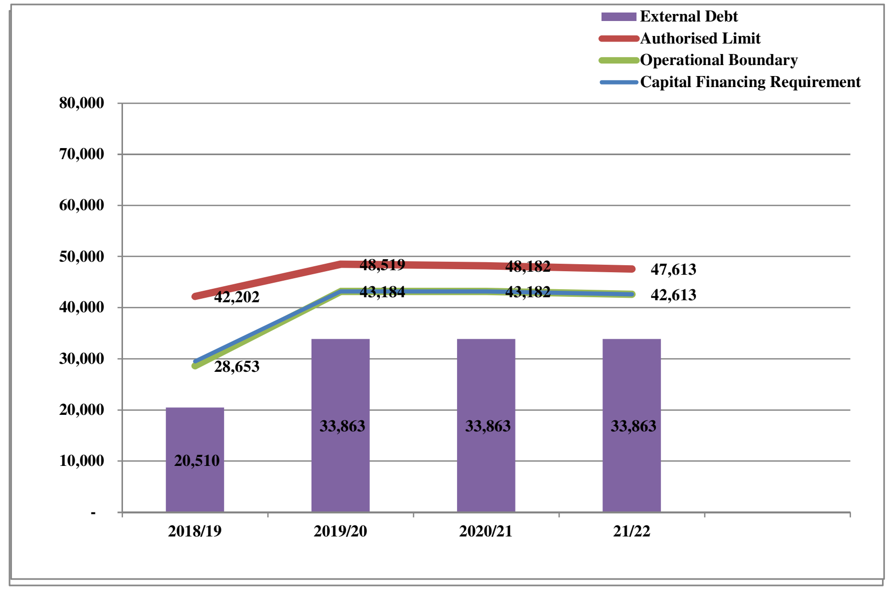
The S151 (responsible) officer

- 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following*: -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
    - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

	2018/19 £'000	2019/20 £'000	2020/21 £'000	21/22 £'000
Authorised Limit	42,202	48,519	48,182	47,613
Operational Boundary	28,653	43,184	43,182	42,613
Capital Financing Requirement	29,513	43,184	43,182	42,613
External Debt	20,510	33,863	33,863	33,863





Capital expenditure By Cluster £m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
People	1.808	1.176	4.913	9.096	1.074
Places	0.552	4.188	10.19	11.419	0.466
Policy and Resources	0.131	1.366	0.353	0.01	0.08
Investment Properties	0.093	6	10	4	0
Total	**2.584**	**12.73**	**25.456**	**24.525**	**1.62**

APPENDIX 1

DRAFT CAPITAL INVESTMENT STRATEGY 2019/20 – 2023/24

1. Introduction

The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon.

The Capital Investment Strategy provides a framework to enable both revenue and capital investment decisions which contribute to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

The strategy defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending, and sets out how the resources will be managed.

Key elements of the strategy;

- Ensures investments meet our Corporate Plan objectives
- Incorporates the requirements of the Asset Management Plan
- Enables the development of an Capital Investment Programme over the medium term (5 years)
- A framework which will identify priorities for the use of resources for investment.
- Decisions are based on sound business cases.
- Risks are identified and mitigated where possible
- Directly links to the Treasury Management Strategy ensuring an affordable and sustainable Capital Investment Programme and within the limitations of the Prudential Indicators.
- Informs the Medium Term Financial Plan by identifying the revenue impacts of investment decisions.
- Incorporates an annual review to ensure the programme still meets our priorities.
- Considers innovative solutions to funding.

2. Principles Supporting the Capital Investment Strategy

a) Strategy Principles

- The investment programme will support the Council's strategic priorities, therefore, the capital investment programme will link to all key strategic planning documents: specifically the Corporate Plan, Executive Business Plan, Medium Term Financial Plan and the Asset Management Plan.

- Schemes within the programme will be prioritised on an authority wide basis and the process of assessing investments, against specific criteria, will optimise the benefit and relative importance of potential schemes.
- **Responsible Investing (RI)** - investing in opportunities that seek to generate both financial value and sustainable growth*,*
- **Socially responsible investing** (**SRI**), also known as sustainable, socially conscious, "green" or ethical investing, as well as any investment strategy which seeks to consider both financial return and social good.

b) Capital Investment Policy

The Capital Investment Strategy will be underpinned by a Land and Property Investment Policy. The policy ***does not describe detailed operational investment activity but does describe the framework, and principal [underlying] considerations, which the Council will follow when reviewing and subsequently agreeing investment opportunities.*** It is designed to support the goals and objectives as outlined in the Corporate Plan, the general objectives of a UK public sector service provider and the very specific aims; goals and aspirations of the Council members; executive officers and their teams.

c) Finance Principles

- The overarching principal is the commitment to achieve affordable capital investments over the longer term.
- To pursue all available external funding options and opportunities for leverage of external resources.
- Ensure evaluation for value for money investments by whole life costing (where applicable) and by having robust Business cases with full financial modelling, and appropriate due diligence in estimates in order to inform the full financial implications
- To develop partnerships, including the pursuit of shared services, joint ventures and community arrangements, where appropriate, to achieve the Council's investment aspirations and value for money.
- Monitoring and evaluation of approved budgets will form part of the quarterly budget monitoring reports.
- Monitoring and evaluation of approved Programmes and projects will form part of Performance Management.

- Encourage community engagement by informing on priorities and consultation on proposals.
- To invest in non-treasury activities to support ongoing sustainability in the delivery of services.
- Regularly review Business Cases as schemes are developed and update financial models to inform future budget impacts.

d) Asset Management Principles

The Asset Management Policy ensures that;

- We will take all reasonable and practical steps to ensure the health, safety and wellbeing of staff, visitors and contractors who use or visit our buildings, land or property and who use or are in contact with supporting asset infrastructure.
- We will ensure that all our buildings and landed property assets are fully compliant with current legal requirements, are fit for purpose and managed and maintained in accordance with best practice.
- We will ensure that infrastructure supporting our physical assets is safe and fully compliant with relevant legislative and regulatory requirements.
- All activity on our assets will be carried out in compliance with relevant legislative and statutory requirements.
- We will assess asset related risks and manage such risk in accordance with our corporate risk management policy or in accordance with procedures relevant to the specific asset, its use and function.
- We will retain and/or acquire physical assets which are appropriate to our business and function and dispose of those assets which are not fit for purpose or which cannot support our business or investment criteria.
- We shall continue to actively develop our asset management systems; processes and procedures in a way which is appropriate; efficient; transparent and sustainable and which supports the best management outcomes for our physical assets.
- We shall continue to train and develop staff across the asset management discipline and apply technology and innovation where practical.
- We shall seek continual improvement of our management capability and activities to ensure value for money for all stakeholders.

3. Capital Investment Priorities

The Council's proposed Capital Investment Programme 2019/20 will support the Corporate Plan's key themes;

Key Themes

- Council – Finances, Customer, Staff and Members
- People – Health, Vulnerable Groups, Education and Skills
- Place – Economy, Housing, Public Safety

The Council's financial planning process ensures that the decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The key corporate documents in this regard are;

The Corporate Plan
The Medium Term Financial Plan - incorporates the Financial Strategy, revenue budget financial impacts of capital investment decisions.
The Reserves Strategy- prioritises the use of reserves for capital and revenue purposes.
The Treasury Management Strategy - informs the affordability and sustainability of prudent capital investment decisions.
The Commercial Portfolio Strategy – informs how acquisitions will be considered on a risk based approach
The Value for Money Strategy
The Housing Strategy
The Land and Property Investment Strategy
The Asset Management Policy
These documents are available on our website www.west-lindsey.gov.uk

4. The Capital Investment Strategy Process

The strategic approach to revenue and capital investment decisions needs to be formalised to ensure that our resources are directed to the most appropriate schemes which both deliver our corporate priorities and which are based on sound business cases. Assessment and prioritisation of capital investments schemes are based on uniform criteria.

Therefore the Capital Investment Strategy Process has been developed which will ensure that prioritisation of investments are directed to deliver Corporate Objectives and delivery of the Executive Business Plan and Service Business Plans in addition to generating returns to support delivery of core services.

The process for includes:

- Review existing Capital Programme, timing, budget requirements etc.
- Annual review of existing Projects

- Asset Management Plan – detailed costs of required investment in property portfolio and property assets to be disposed.
- Review of Asset replacement programmes
- Consideration of financing availability i.e. Earmarked Reserves, Grant funding, Capital Receipts and Prudential Borrowing
- Business Planning – identifying new schemes and projects for evaluation both capital and revenue.
- Evaluation of all proposed schemes against scoring matrix.
- Consider core service funding requirements and opportunities to invest in non-Treasury assets to generate returns

The final approved Capital Investment Programme and its financial implications, are included within the Medium Term Financial Plan, submitted to the Council annually in March for approval.

Fully costed and appraised business cases for each scheme will be presented to a relevant Board for consideration prior to any decision being made.

The Capital Programme consists of consist of 4 levels of activity;

Pre-Stage 1 – Business Case in preparation
Stage 1 – Budget approved – requires full business case
Stage 2 – Business case approved in principal or awaiting funding
Stage 3 and Business as Usual (BAU) – Approved to spend and funding secured

The investment and the ongoing revenue implications of each scheme are ascertained from the financial implications and appraisals within the business case.

The Capital Investment Value is assessed against the capital definition, and de minimis limits (£10k).

Revenue Implications – include the impact on revenue budgets for running costs/additional staffing etc. and the impact of the cost of borrowing or loss of investment interest if capital receipts and revenue reserves are to be utilised

5. Governance of the Capital Investment Programme

In accordance with the Constitution and governance arrangements, the Council reviews its capital requirements and determines its Capital Programme within the framework of the MTFP and as part of the annual budget process. Resource constraints mean the Council continually needs to priorities expenditure in light of its aims and priorities and considers alternative solutions.

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with service and revenue budget planning process within the frame work of the MTFP.

New programmes of expenditure will be appraised following a clearly defined Business Case gateway process.

The Council will approve in principal the Capital Investment Programme, and will approve the release of funding for replacement and renewal programmes, this is undertaken annually in March as part of budget setting and the approval of the Medium Term Financial Plan.

The Governance and Audit Committee will provide assurance on this Capital Investment Strategy.

Corporate Policy and Resources Committee will be responsible for approving release of funding for the Capital Investment Programme and will therefore receive reports for each scheme detailing the business case, cost, proposed funding and revenue implications.

Corporate Policy and Resources Committee will receive quarterly monitoring an update reports which may include details of;

- new capital investment schemes
- slippage in programme delivery
- programmes removed or reduced
- virements between schemes
- revisions in spend profile
- overspending
- capital acquisitions and disposals
- loan advances and outstanding loan balances

Progress on specific programmes will also be monitored in relation to projects through the Performance Monitoring reporting framework.

The Programme Board will receive monthly highlight reports

The Management Team will receive quarterly monitoring reports and any exception reporting.

Budget Managers will receive monthly monitoring reports.

6. Capital Financing Strategy

The funding of Capital schemes can come from a number of resources, the use of external resources will take precedent;

- Prudential borrowing
- Revenue contributions and Earmarked Reserves
- Capital Receipts

- External grants and contributions (including S106 and Community Infrastructure Levies (CiL))
- Leasing
- Other sources – i.e. partnerships or private sector involvement

This strategy, the outcomes of which will inform the MTFP, is intended to consider all potential funding options available to the Council and to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP.

To deliver our strategic objectives, especially in relation to economic and housing growth, regeneration. In addition investment in commercial property is designed to provide a revenue return, significant levels of investment will be required, which will result in a borrowing need.

Prudential Borrowing

The Council has discretion to undertake Prudential borrowing to fund capital projects with the full cost of that borrowing (interest and minimum revenue provision) being funded from Council revenue resources and/or capital receipts. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing provides an option for funding additional capital development however it has to be funded each year from within the revenue budget and by generating additional ongoing income streams from the investment.

Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases and only where there is a clear financial benefit, such as "invest to save", "invest to earn". Consideration will only be given to commercial investments where returns are expected to be higher than the revenue costs of the debt, provision of loans where principal repayments will be utilised as proxy for MRP, borrowing or major regeneration schemes which do not increase revenue expenditure levels in the longer term but provide a beneficial economic impact.

The Council will remain cautious and prudent in the extent of prudential borrowing undertaken to fund new capital investment.

Where prudential borrowing is utilised to fund Capital Investment, financial implication considerations will be provided including the risks and opportunities of the investment over both the payback period and over the repayment period of any debt taken out.

Revenue Contributions and Earmarked Reserves

Our continued prudent approach is to set aside revenue resources to fund capital replacement programmes and asset management funding, this will continue over the MTFP.

Our estimate of New Homes Bonus will be set aside for the purpose of investment in growth and regeneration (economic and housing) and has been included in the MTFP.

We will consider future Earmarking of Reserves for service investment needs, invest to save and invest to earn projects and enhancements to our own property assets, in addition to consideration of revenue contingencies, volatility and budget smoothing.

Our own resources will therefore be utilised to fund those schemes which provide a SRI, invest to save schemes which achieve efficiencies, and investment in our operational service asset needs.

Capital Receipts

Capital receipts generated from the following sources and where appropriate utilised as detailed.

- Loans principal repayments – used to repay prudential borrowing
- Receipts from Asset Disposal (operational property assets or surplus land)
- Commercial Portfolio Properties – repayment of borrowing
- Share of RTB Housing Transfer Agreement
- Insurance settlements – replacement of asset

External Grants and contributions (incl. S106 and Community Infrastructure Levy (CiL))

The Council will actively pursue grants and contributions and other innovative solutions to funding of capital investment schemes. This funding will be utilised in the first instance.

Leasing

The use of leasing will be undertaken where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment. Where there is a robust business case then the option of leasing may be considered.

Other Sources of Funding

There are a range of other potential funding sources which may be generated locally either by the Council itself or in partnership with others ie a growing number of private organisations are showing interest where clear joint benefits exist. Each case will be subject to specific financial appraisals and appropriate governance arrangements.

7. Investment in Commercial Properties (Non Treasury Investments)

Any acquisition of Commercial Properties will be in accordance with the Commercial Portfolio Strategy and are being acquired to support delivery of services in a financially sustainable organisation. Up to £30m has been approved for investment in Commercial Property in support and protection of Council Services.

Appropriate experts will be engaged as required.

All assets will be assessed against a set criteria and the Director of Resources and Chair of Corporate Policy and 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 annual review will be undertaken of the Commercial Property Portfolio to ascertain whether its fair value is sufficient to provide security against loss against the capital investment, and therefore adequate to meet the cost of outstanding borrowing.

Under the Minimum Revenue Provision (MRP) Policy, there will be no annual MRP charge for borrowing undertaken to finance Commercial Properties. However voluntary MRP will be considered if appropriate.

A Valuation Volatility Earmarked Reserve has been created to mitigate any loss of capital investment upon the sale of an asset, to meet the cost of any shortfall against outstanding debt. A proportion of the annual revenue income generated from the investment will be allocated for risk provision.

A Commercial Contingency revenue budget has been included within the MTFP to mitigate the risk of not achieving the desired level of yield from the Portfolio in year.

These investment assets are not deemed to be liquid over the short term but are likely to be held for the medium term of 5-10 years.

A number of prudential indicators in relation to these investments are contained within the Treasury Management Strategy and will be monitored throughout the year.

8. Risk

All capital projects have a risk register, with all risks affecting the project considered.
A specific risk of capital investment is the impact on the Council's VAT partial exemption (recovery of exempt VAT up to 5% of overall VAT). If exempt VAT exceeds

5% the whole amount is then irrecoverable. Each scheme is therefore assessed for its impact.

9. Conclusion

The Capital Investment Strategy is a working document, which enables the Council to make informed rational capital investment decisions to achieve its corporate priorities and objectives. It provides a framework for determining the relative importance of individual projects.

The strategy will be reviewed annually to ensure that it remains relevant and effective.

	Governance & Audit Committee
	15th January 2019

Subject: Internal Audit Draft Annual Plan Report 2019/20

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Ian Knowles, Executive Director of Resources Ian.knowles@west-lindsey.gov.uk
Purpose / Summary:	To present to members the draft annual internal audit plan based on assurance mapping and risk assessments across the Councils critical services.

RECOMMENDATION(S):	**That Members** 1) **Note and agree the contents of the report and be assured that the plan provides robust coverage of the Council's critical areas and services.**

IMPLICATIONS

Legal: None directly arising from the report

Financial:
No financial implications directly arise 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**

Assurance LINCOLNSHIRE

For all your assurance needs

West Lindsey District Council
Internal Audit Plan 2019/20

West Lindsey DISTRICT COUNCIL

What we do best ….

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

….. And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

Contents

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Introduction

1. This report sets out the Internal Audit Plan as at 1st April 2019. The plan details the activities to be audited and the indicative scope for each audit. The audits are listed in priority order. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

2. Internal Audit are then able to use our audit planning tool to target our resources– working within agreed resources. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

3. In Appendices A to E we provide for you information details of:
   - Auditable Activities
   - How the draft plan achieves the requirements of the Governance & Audit Committee and Head of Internal Audit
   - Our Working Protocols and Performance
   - Our Quality Assurance Framework
   - Your Internal Audit Team

Developing the plan

4. The internal audit plan has been developed form the Council's Assurance Map – which was updated in November 2018 and input from the Management Board. **Figure 1** below also shows other key sources of information that has help inform the plan.

Figure 1 – Sources of information considered when developing Internal Audit activity

5. We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when is the best time to do the Audit).

Updating the Plan

6. Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which will be included in the plan according to priority. The 2019 Assurance Map, to be undertaken in November 2019, will allow for a major annual review of the plan.

7. The primary source of business intelligence will be the regular liaison meetings between Assurance Lincolnshire and Executive Director of Resources, other sources of intelligence will include:

- Committee reports
- Investment and project proposals
- Project update reports
- Performance reports
- Key stakeholders

Delivering the Plan

8. The aim is to deliver the audits included in the plan in the order that they are listed, i.e. in accordance with their assessed priority. This will be modified in accordance with requests from management and practical considerations around the timing of audits. It may also be modified by the availability of specialised staff, in particular ICT audits, however we do not consider this will have a significant, if any, impact.

9. The Council's Internal Audit Plan is **170 Days** – with an additional **20 days** for testing of the Housing Subsidy claim on behalf of External Audit.

Fees

10. .

Area	Fees – 2019/20
Internal Audit	
Housing Subsidy Claim Testing	

Our Audit Focus for 2019/20

11. In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion in the Internal Audit Strategy and Plan
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs. The areas of coverage and key controls to be tested will be agreed with the Section 151 officer. We propose the following systems are reviewed this year: ▪ Key control testing – Including payroll and financial resilience.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. The area prioritised included: ▪ Delivering the Corporate Plan & the golden thread.

12. All auditable areas are shown in Appendix A.

Area	Reason for inclusion in the Internal Audit Strategy and Plan Area
Critical Activities	The combined assurance work undertaken in 2018/19 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. The areas prioritised included: ▪ Vulnerable Communities ▪ Health and wellbeing
Project Assurance	There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised). ▪ Review the Councils compliance with Programme & Project Management methodology.

Our Internal Audit Plan

Area	Reason for inclusion in the Internal Audit Strategy and Plan
IMT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from previous year assessments and our awareness of current IMT risks. We have prioritised : ▪ Cyber Security ▪ Procurement for ICT Applications ▪ Other to be agreed.
Follow Up	Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated. Working with management we also track the implementation of agreed management actions for all audit reports issued.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2020.

Area	Reason for inclusion in the Internal Audit Strategy and Plan
Consultancy /No-Opinion Reviews	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion. .

Annual Internal Audit Opinion

13. We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

Plan at 1st April 2019	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Delivery of the Corporate Plan and the Golden Thread	Test the outcomes and deliverables included in the corporate plan to ensure these are SMART targets and delivery is monitored and managed. Map corporate plan outcomes to performance measures to identify a link between the two and identify any gaps in reporting. Confirm the understanding with all levels of management of how their services, annual service plans and performance measures link to and support the corporate plan.	**Amber**	**Amber**	✓	✓	✓
Programme and Project Management	Evaluate how well services understand the Council's process and systems for programme and project management. Confirm officers understand the definitions of programmes, projects, business cases and the agreed way to progress, develop, monitor and manage these for effective delivery for the Council.	**Amber**	**Amber**	✓	✓	✓

Internal Audit Plan

Plan at 1st April 2019	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Vulnerable Communities	Review the Council's strategic approach to supporting vulnerable communities including deprived wards, health and wellbeing and social regeneration. To confirm the Councils approach and understanding in delivering social outcomes across multiple service areas. Ensuring there is a corporate overview and system for maintaining effective oversight of project delivery and day to day operations which all support vulnerable communities.	**Amber**	**Amber**	✓	✓	✓
ICT	Complete a Cyber Security review to provide assurance to management on this key risk area for the Council. Review the procurement process for the purchase of new ICT systems. Other areas of ICT coverage to be agreed, there are several emerging risks raised around ICT in the Assurance Map.	**Amber**	**Green**	✓	✓	✓
Plan Resource	**Allocation at 01st April 2019 – 90 days**					

Holding Plan – Other areas identified from Assurance Mapping where management should seek further assruance or consider for inclusion in the plan.

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Holding Plan Audits to be integrated into Plan if triggered	Areas identified through Assurance Mapping by management	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Regulatory Services Env Protection	Audited in 2018/19, provide further assurance on the development and management of this service.	**Amber**	**Amber**	✓	✓	✓
Regulatory Services External H&S	Audited in 2018/19, provide further assurance on the development and management of this service.	**Amber**	**Amber**	✓	✓	✓
Street Cleaning	Review the service and recent drop in demand and verify the Council's approach to the future of this service.	**Amber**	**Amber**	✓	✓	✓
Gainsborough Markets	Provide assurance on the Council's long term vision and plans for markets and how to halt the long term decline.	**Amber**	**Red**	✓	✓	✓
Homeless Prevention	Review the implementation of the new ICT system and provide assurance on the management and monitoring of the system and management information outputs.	**Amber**	**Amber**	✓	✓	✓
Health & Wellbeing	This is a 10 year contract with resource, contract management, commercial and reputational risks all involved. This is a new and	**Amber**	**Amber**	✓	✓	✓

	developing area with possible commercial benefits and is assessed as Amber					
Planning Enforcement	Verify the Council's approach to manage continued big demand for this service. Review that new policies and processes effectively handle the demand.	**Amber**	**Amber**	✓	✓	✓
Food Safety	Provide assurance on resource issues and that the internal review the service is effective in managing resource and delivery issues.	**Amber**	**Amber**	✓	✓	✓
Community Safety and ASB	Confirm how the Council is managing the loss of experienced staff and verify how effective the service is.	**Amber**	**Amber**	✓	✓	✓
Property and Estate Management Strategic	Provide assurance on the teams effective work on key projects and joined working with the Growth Team.	**Amber**	**Amber**	✓	✓	✓
Community Rights	Review the amount of appeals and investigations and how these are conducted for this statutory duty service.	**Amber**	**Amber**	✓	✓	✓
Strategic Risk Management	The Council is realigning and reviewing risks to the new corporate plan. Ensure risks and controls are challenged and monitored.	**Amber**	**Amber**	✓	✓	✓
NNDR	Review the contract with partners to provide the service and ensure WLDC is receiving an effective reliable service.	**Amber**	**Amber**	✓	✓	✓
CCTV	Provide assurance on how this service operates and review Council plans for resources and expanding the CCTV service offer.	**Amber**	**Amber**	✓	✓	✓

Fixed Plan – Audit management work to be undertaken that supports the audit process and audits from our cyclical plan (Appendix F), these are required to fulfill the Head of Audits annual assurance requirements or contracted by the Council.

Fixed Plan	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Head of Internal Audit Opinion	Management Request
Auditing - Key Control Testing	To provide high level assurance that the Council's key controls are in place and operating effectively throughout the year – this will cover financial and corporate areas. The areas of coverage and the key controls tested will be agreed with management but can cover: – Financial – Resilience – HR – new starters, leavers, changes to payroll data – Key reconciliations eg bank – payroll – creditors - income – Complaint handling – Revs & Bens – key control indicators around collection and accuracy rates.	**Amber**	**Green**	✓	✓
Culture & Good Governance	Follow up work to the 2018/19 Governance review.	**Amber**	**Green**	✓	

Fixed Plan	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Combined Assurance	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	N/A				
Audit follow up work	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	N/A				
Contingency days for emerging risks.						
Sub Total Days Allocated	**65 days**					
Advice and liaison						
Annual Report						
Audit Committee						
Review IA Strategy and Planning						
Sub Total Days Allocated	**15 days**					
Fixed Plan Resources 2019/20	**80 days**					
Housing Benefit Subsidy	**20 days**					

How the draft plan achieves the requirements of the Council and the Head of Internal Opinion

1. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

   - Achieve strategic objectives
   - Ensure effective and efficient operational systems and programmes.
   - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
   - Ensure the reliability and integrity of financial and operational information.
   - Ensure economic, efficient and effective use of council resources.
   - Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

2. It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council.

3. To help us do this we prioritise and schedule our work –Working with you we intend to have a continuous rolling audit work plan - responding to changing circumstances or emerging risks during the year.

4. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more responsive – essential for an effective Internal Audit service.

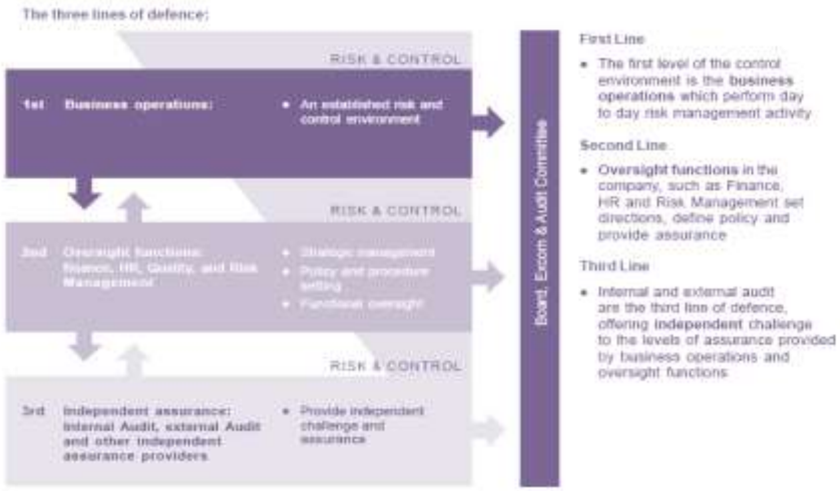
5. Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

6. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

7. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

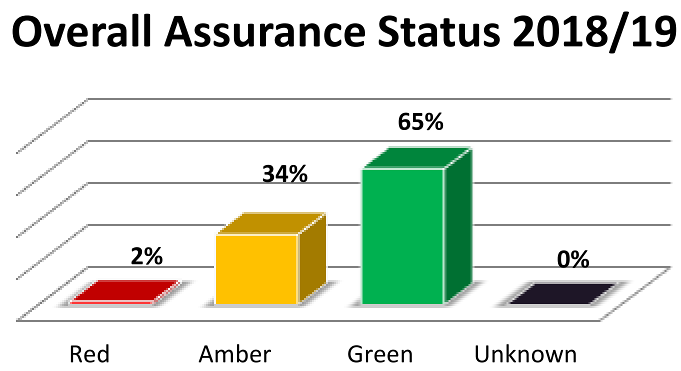
8. We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 1.**

Figure 1 – Three Lines of Assurance Model



9. **Figure 2** shows the overall assurance levels on the Council's critical activities as at November 2018.

Figure 2 –Your Assurance Status



Red Low level of assurance
Amber Medium level of assurance
Green High level of assurance
Unknown Assurance level not established

10. Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

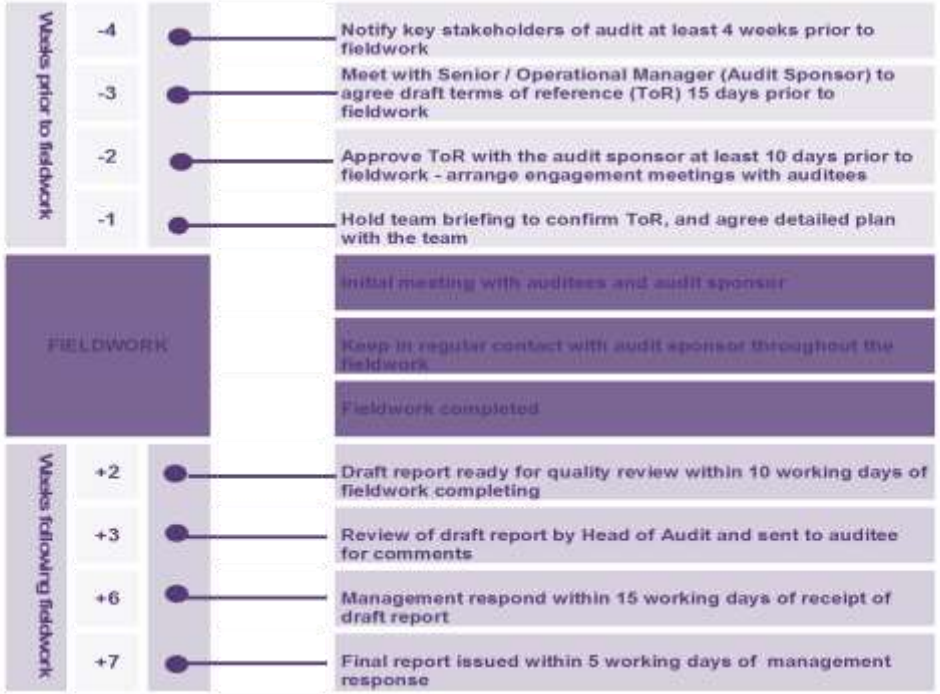
Working Protocols and Performance

1. Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out opposite.

2. Our performance is monitored by the Section 151 Officer and the Governance & Audit Committee - measured against 3 key areas:
   - Delivery of planned work.
   - Timeliness (contemporary reporting).
   - Quality and Impact of work (communicating results / added value).

3. Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

- agreeing potential audit work for the forthcoming year
- providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- for individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.



- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

- We support Senior Management in attending the Governance & Audit Committee where a Limited or Low Assurance level has been given against the activity.

Our Quality Assurance Framework

1. Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

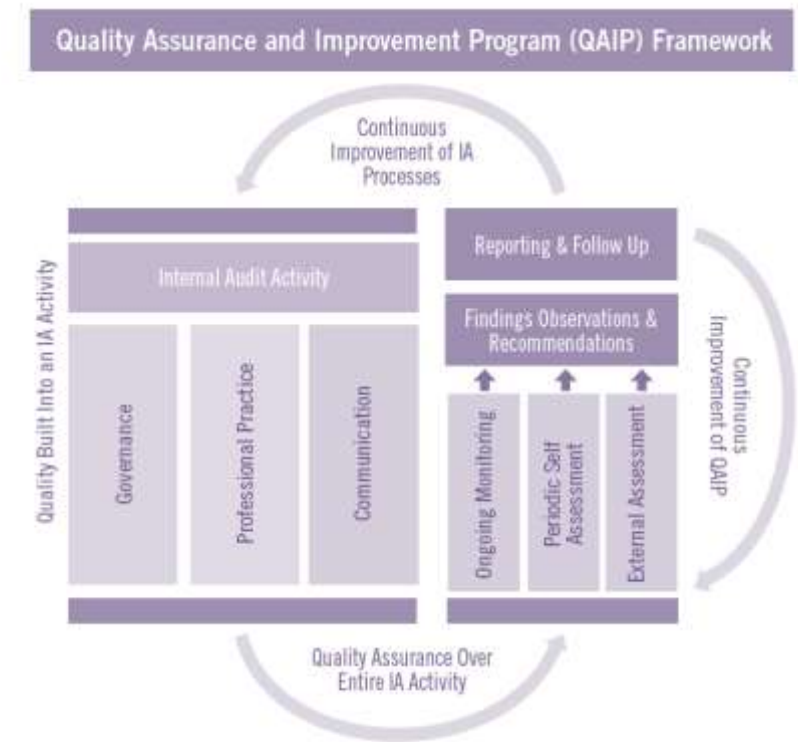
2. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

3. Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **Figure 4** shows how we structure our internal assessments to ensure appropriate coverage.

4. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

5. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Governance & Audit Committee and is due to be reviewed in 2018 following the planned revision of the CIPFA Local Government Application Note.

Figure 4 - Scope of Quality Assurance Improvement Programme



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Your Internal Audit Team

Your Internal Audit Team

1. Your Internal Audit Team will be led by Lucy Pledge (Head of Assurance Lincolnshire), supported by John Sketchley (Team Leader) and Matthew Waller – who is your Client Engagement lead.

2. The team will be supported by specialists from Assurance Lincolnshire and our wider audit framework as and when appropriate.

3. An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	2019/20 (days)	Grade Mix (%)
Head of Internal Audit	15	9%
Team Leader / Audit Manager	25	15%
Principle Auditor	60	31%
Senior Auditor	90	45%

Conflicts of Interest

4. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that

5. allows them to make impartial and effective professional judgements and recommendations.

6. We are not aware of any relationships that may affect the independence and objectivity of the team and which are required to disclose under the internal auditing standards.

Our Cyclical Audits

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes
Financial Due Diligence					
Income Collection & Cash Receipting*	Substantial	2015/16	Green	Amber	No
Bank*	Substantial	2017/18	Amber	Amber	Yes - 2015
Budgetary Control/Management	High	2018/19	Green	Amber	No
General Ledger	Substantial	2015/16	Green	Amber	No
Budget prep and financial strategy	High	2018/19	Green	Amber	No
Creditors*	Substantial	2015/16	Green	Amber	No
Debtors*	Substantial	2017/18	Green	Amber	No
Pensions	Substantial	2017/18	Green	Amber	No
Payroll*	WIP	2018/19	Green	Amber	Yes - 2014
Treasury Management	High	2015/16	Green	Amber	No
Property, Plant and Equipment*	Substantial	2017/18	Green	Amber	No
Council Tax*	High	2014/15	Green	Amber	No

Our Cyclical Audits

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes
Benefits*	Substantial	2017/18	Green	Amber	No
Other Due Diligence					
Investment Decisions / commissioning	Limited	2016/17	Green	Amber	No
Risk Management	Substantial	2016/17	Green	Amber	No
VAT/Tax	WIP	2018/19	Green	Amber	No
Insurance	WIP	2018/19	Green	Amber	No
Grants	Substantial	2015/16	Green	Amber	No
Counter Fraud	Health Check	2017/18	Green	Amber	No
Contract Management	Substantial	2015/16	Green	Amber	No
Equality & Diversity	High	2008/09	Amber	Amber	No
Health & Safety	WIP	2018/19	Green	Green	No
Information Governance	Substantial	2014/15	Green	Green	No
Code of Corp Governance	Substantial	2017/18	Green	Amber	No
Partnerships	Substantial	2016/17	Amber	Amber	No
Corporate planning	Substantial	2018/19	Green	Amber	No
Business Continuity	Substantial	2010/11	Green	Amber	No
Emergency Planning	Substantial	2010/11	Green	Amber	No
NNDR	High	2017/18	Green	Amber	No
Human Resources / Managing People	Substantial	2010/11	Green	Amber	No

Governance & Audit Committee	
15 January 2019	

Subject: Internal Audit Quarter 3 Progress Report 2018/19

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Ian Knowles, Executive 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 2018/19 annual programmes agreed by the Audit Committee in March 2018.

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**

Internal Audit
Progress Report

West Lindsey District Council
06.12.2018

Assurance LINCOLNSHIRE

For all your assurance needs

West Lindsey DISTRICT COUNCIL

Contents

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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 01.10.2018 – 06.12.2018
- Advise on progress with the 2018/19 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed four audits:

- Two final assurance reports
- Two consultancy reports

1
HIGH ASSURANCE

Assurances

The following audit work has been completed and a final report issued:

- Growth Programmes – Substantial
- Sales and Invoicing Follow Up – High
- Leisure Consultancy review – Consultancy
- Good Governance review - Consultancy

1
SUBSTANTIAL ASSURANCE

2
CONSULTANCY

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

0
LOW ASSURANCE

High Assurance

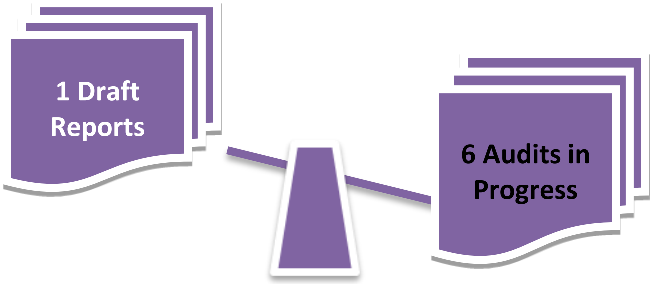
Sales and Invoicing Follow Up	Earlier in March 2018 an internal audit reviews of the Sales and Invoicing System - Commercial Application was undertaken. The assurance opinion of the audit was split. The Management of Sales and Invoicing received Substantial Assurance and the Finance System Commercial Application received Limited Assurance. The focus of this follow up audit was to provide independent assurance on the implementation of the agreed actions from the previous Sales and Invoicing System - Commercial Application audit review. Our review has provided High Assurance for the implementation of the agreed actions from the previous audit action plan, with all recommendations implemented or in progress.

Substantial Assurance

Growth Programme	We reviewed three key projects areas which were Gainsborough Town Centre Development Partner, Sun Inn hotel and Market Street Regeneration. Our review provided Substantial Assurance on the effectiveness of the management arrangements and project management processes of the Growth Programme and the development and delivery of the individual projects we tested. There were some medium priority findings from the review which included strengthening the risk management process and monitoring of key milestones recorded in project documents and reported to management boards. Ensuring there is clarity on and reporting on delays and missed milestones. Some of these areas had been highlighted in the previous Growth Programme audit from March 2017.

Assurance not applicable

Leisure Review	The overall management of the procurement process was handled well and effective decisions were made. This included the decision to refurbishment the bowls hall which will ensure that there is a multi-activity venue available for all residents throughout the year. The Council achieved a successful outcome and at all times complied with relevant regulatory requirements. The process was robust and risks were managed.
Assurance Mapping	We have completed our assurance mapping process for 2018. By grouping the different sources of assurance in a single model we provide the basis for Senior Management and Audit Committees to gain a better understanding of their organisations assurance status and needs. We have well established Assurance Maps that help us to focus our work plans on the make or break risks that affect the successful delivery of services and strategic objectives. The Maps also recognise the importance of critical business systems that support successful delivery and 'protect the business' – the due diligence activities. The Maps give an overview of assurance provided across the whole organisation – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'unknowns or gaps'.
Good Governance	Our main objective has been to assess the current level of Culture and Ethical maturity across the Council and to work with you to develop an action plan to support success and continuous improvement of good governance. During the review we found many examples of good practice, these include, clear and effective Leadership setting the 'tone from the top' and a review of the Council's mission, vision and values led by the Head of Paid Service. There was overwhelmingly positive feedback from the workforce towards the Council as a whole and reached a positive level of maturity from our maturity matrix.



Audits reports at draft

We have 1 audit at draft report stage:

- Customer First Programme review.

These will be reported to the committee in detail once finalised.

Work in Progress

We also have 6 audits in progress :

- Key Control Testing
- Investment Programmes review
- Corporate Plan review
- ICT Records Management
- ICT Capacity & Capability joint review with NKDC.
- ICT Infrastructure joint review with NKDC

High	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	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	Our critical review or assessment on the activity gives us a 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	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.

Outstanding Audit Recommendations for all audits at 06.12.2018

There are none to report.

Appendix 3 2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status / Rating
Environmental Protection & Enforcement	Review the recent changes in structures and management and provide assurance that services are being delivered as intended.	Q1 June 2018	June 2018	Sept 2018	Limited
Investment programmes	Review the Councils approach to managing projected gaps in the budget and provide assurance on the delivery of projects which provide a commercial return to the Council.	Q1 June 2018	Sept 2018		Work In Progress (WIP)
Growth Programmes	To follow up on 2016 growth audit work and provide assurance on project and programme work in delivery.	Q1 May 18	June 2018	Nov 2018	Substantial
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 – Sept 2018	Aug 2018	Sept 2018	High
Customer First	A key programme of work and business transformation for the Council. Provide assurance that the programme is being effectively managed and monitored.	Q2 July – Sept 2018	Sept 2018		Draft Report
Corporate Planning	Review the Council's systems and processes over the setting of its strategic direction.	Q2 July – Sept 2018	Sept 2018		WIP
Financial Strategy & Budget Preparation	Review the Councils systems and processes in place to provide assurance on the process of budget preparation and it's alignment with the Council's strategic priorities. This will include budget setting and links to corporate priorities and the medium term plan.	Q2 July – Sept 2018	Aug 2018	Sept 2018	High
Budget management	Review the Councils systems and processes in place to provide assurance on the management of budgets. This will include budget monitoring, control and management of variations.	Q2 July – Sept 2018	Aug 2018	Sept 2018	High

Appendix 4 2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Leisure Contract	Consultancy review of the new Leisure contract process.	Q2 July – Sept 2018	Sept 2018		Complete
ICT Infrastructure joint with NKDC	Joint review with NKDC to cover the roadmap and spending plans for future ICT software and hardware.	Q2 July – Sept 2018	Nov 2018		WIP
Follow up PCI DSS	Follow up low or limited audit reports for assurance on improvement and implementation of findings.	Q3 Oct – Dec 2018			Not started
Follow up Sales & Invoicing	Follow up low or limited audit reports for assurance on improvement and implementation of findings.	Q3 Oct – Dec 2018	Sept 2018	Nov 2018	High
Combined Assurance	Document the Council’s critical areas to provide an assurance rating to inform the audit plan and report to management and members.	Q3 Oct – Dec 2018	Sept 2018	Dec 2018	Complete
Follow up Planning Enforcement	Follow up low or limited audit reports for assurance on improvement and implementation of findings.	Q3 Oct – Dec 2018			To start Jan 2019
Follow up Commercial	Follow up low or limited audit reports for assurance on improvement and implementation of findings.	Q3 Oct – Dec 2018	Dec 2018		WIP

Appendix 4 2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
ICT Capacity and Capability Joint with NKDC	Consultancy review on the staff capacity and capability for ICT joint with NKDC.	Q3 Oct – Dec 2018	Nov 2018		WIP
ICT Records Management	To review the Council's ICT records management process and management and provide assurance on controls and outcomes.	Q3 Oct – Dec 2018	Nov 2018		WIP
Key Controls Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's Financial and control environment.	Q4 Jan – Mar 2018	Nov 2018		WIP

Agenda Item 6f

	Governance and Audit Committee
	Tuesday, 15 January 2019

Subject: Periodic review of the Annual Governance Statement Action Plan 2017/18

Report by:	Executive Director of Resources
Contact Officer:	James O'Shaughnessy Corporate Policy Manager & Deputy Monitoring Officer james.o'shaughnessy@west-lindsey.gov.uk
Purpose / Summary:	To review the progress with the Annual Governance Statement 2017/18 Action Plan.

RECOMMENDATION(S):

That Members seek assurance that the current position of the Annual Governance Statement Action Plan for 2017/18 will result in the completion of all relevant actions by July 2019.

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 – 167 - 19 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 2017/18 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 2018, the Governance and Audit Committee agreed the Annual Governance Statement for 2017/18 and noted that an action plan would be put in place and monitored by the Committee to address the significant issues.

2. Significant Issues 2017/18

2.1 The six significant issues that were identified for development were:

i. **Commercialisation** – To ensure that related decision making and governance arrangements are effective and transparent and form part of the Monitoring Officer's oversight and reporting duties

ii. **Wellbeing Contract** – Implementation of the new service must be closely monitored, partnership working arrangements must be effective and the intended outcomes for service users must be understood and achieved

iii. **Review of Challenge & Improvement Committee** – To ensure that the Committee is effective in its operations and performs a robust scrutiny function

iv. **New Corporate Plan (2019-2023)** – The new Plan must clearly set out the strategic aims of the Council and the outcomes it seeks, based on the issues and opportunities facing the District

v. **PCI DSS Processes** – To achieve compliance with industry standards

vi. **Value for Money (VfM)** – To complete VfM assessments across service areas to enable senior management set clear priorities for improvement

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 2016/17 Action Plan (Value for Money), or the key strategic importance of the issue to the Council.

3. The Action Plan

3.1 Progress is being made across all issues contained within the Action Plan. At this stage it is anticipated that all issues will be adequately addressed within the set timescales.

3.2 Further details are contained within the attached document.

3.3 Members will receive a further progress report in 2019.

Annual Governance Statement 2017/18 Action Plan - Appendix 1

Issue	Description	Action	Current Position	Date Due	Officer	BRAG
Commercialism	To ensure that related decision making and governance arrangements are effective and transparent and form part of the Monitoring Officer's oversight and reporting duties	1, Monitoring Officer to report annually on governance arrangements to Management Team and Governance and Audit Committee 2. Council's Constitution is updated as appropriate	1. Details of the Governance arrangements for Commercial Activity were reported to G& A Committee summer 2018 which gave assurance to the committee. 2. Part IV of the Constitution revised to include the roles of company directors in the scheme of delegation. 3. Further revisions will be reported to G&A Committee in April 2019 and Full Council in May 2019.	31/07/2019	Eve Fawcett-Moralee	Green
Wellbeing Contract	Implementation of the new service must be closely monitored, partnership working arrangements must be effective and the intended outcomes for service users must be understood and achieved	1. Assess usefulness of measures adopted to track delivery of service against anticipated outcomes 2. Implement and review results of user satisfaction surveys 3. Ensure a robust overview and effective delivery of partnership working	1. KPIs monitored each month and are being used to assess demand levels and staffing locations. 2. Customers are graded on entry to and exit from the service. 3. A robust legal agreement underpins the partnership arrangement and governance mechanisms are working well.	31/07/2019	Mark Sturgess	Green

Review of Challenge & Improvement Committee	To ensure that the Committee is effective in its operations and performs a robust scrutiny function	1. Meet with Chair(s) to set scope of the review which includes 'Call-In' process 2. Undertake review, assess findings and identify areas to address, using KPMG training material as reference point 3. Report findings back and create and monitor project plan 4. Track delivery of plan and assess level of improvements	1. Meeting held to discuss matter and ToR agreed for review. 2. Proposals currently being assessed.	31/03/2019	Mark Sturgess	Green
New Corporate Plan (2019-2023)	The new Plan must clearly set out the strategic aims of the Council and the outcomes it seeks, based on the issues and opportunities facing the District	1. Produce State of District Report for Members 2. Conclude mission, vision, value work 3. Identify priorities to be addressed 4. Officers generate options for action 5. Set measures to track progress 6. Produce Corporate Plan document	1. State of District Report produced and presented to Members. 2. Mission, vision and values work completed. 3. Initial set of priorities established and officers identifying options and relevant measures.	31/03/2019	Ian Knowles	Green
PCI DSS Processes	To achieve compliance with industry standards	1. Produce audit trail of SAQ responses and undertake an annual scoping exercise 2. Record regular inventory and check of card machines 3. Training undertaken by all relevant officers 4. Produce and maintain accurate network diagrams	1. Actions set out within last audit report being worked through. 2. Follow-up audit arranged for Q3.	31/03/2019	Ian Knowles	Green

		5. Receive follow-up audit findings				
Value for Money	To complete VfM assessments across service areas to enable senior management set clear priorities for improvement	1. Produce series of VfM assessments for Management Team to review and prioritise action 2. Establish improvement plans for teams and track through business planning activity	1. VfM Handbook written for staff. 2. Work plan produced to ensure VfM considerations are strengthened. 3. Report due to CPR updating Members on position.	31/07/2019	Ian Knowles	Green

Governance and Audit Committee
Tuesday, 15 January 2019

Subject: Review of Strategic Risks (January 2019)

Report by:	Executive Director of Resources
Contact Officer:	Corporate Policy Manager & Deputy Monitoring Officer
Purpose / Summary:	To present to Members the strategic risks facing the Council as at January 2019.

RECOMMENDATION(S):

1. Members are asked to review the register and to consider:
• Do any additional risks of a strategic nature exist?
• Are current controls and proposed actions sufficiently robust?

2. Members are asked to support and endorse the planned work in relation to risk management

IMPLICATIONS

Legal: None

Financial: FIN – 168- 19

Staffing: None

Equality and Diversity including Human Rights: None

Risk Assessment: None

Climate Related Risks and Opportunities: None

Title and Location of any Background Papers used in the preparation of this report:
None.

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**

1 Introduction

1.1 Strategic Risks are considered as being those faced by the Council that, if materialised, would affect the delivery of corporate priorities.

1.2 Governance and Audit Committee review the strategic risks on a six-monthly basis.

2 Monitoring Arrangements

2.1 The strategic risks are presented to the Council's Management Team on a quarterly basis for review.

2.2 The Management Team are requested to review the risks, control measures and future actions to ensure that they remain sufficiently robust to mitigate the identified risks.

2.3 Where corrective action is required and/or additional risks are identified, the strategic risk register is updated accordingly.

3 Identification of Strategic Risks and Population of Risk Register

3.1 Following the production of the Council's Corporate Plan covering the period 2016-2020 and the revision of the Council's Risk Strategy, work was undertaken to assess the risks to the achievement of the Corporate Plan priorities and to identify current mitigations and/or further required action to strengthen the mitigating position.

3.2 This work produced a strategic risk register based upon the following priorities:

- Open for Business
- Asset Management
- People First
- Partnerships/Devolution
- Local Plan
- Excellent Value for Money Services

3.3 A number of additional risks were identified which focus on elements that underpin our workings e.g. Compliance and Business Continuity.

3.4 This approach reflects the guidance provided by the Association of Local Authority Risk Managers (ALARM). This body advocates that strategic risks should focus on the long-term objectives of the organisation, which can be affected by areas such as financial concerns, political risks, legal and regulatory changes and changes in the physical environment.

4. Risk Matrix

4.1 To assess the severity of potential risks, the Council uses the following matrix based on the relationship between the likelihood and impact of risks arising.

I	Critical	4	8	12	16
m	Major	3	6	9	12
p	Minor	2	4	6	8
a	Negligible	1	2	3	4
c		Hardly Ever	Possible	Probable	Almost Certain
t	Likelihood				

4.2 The following guidance is available to determine which classification is applied:

You should assign a number in the range 1-4 as follows:	
Likelihood: 1 = Hardly Ever (<5%) 2= Possible (5-35%) 3= Probable (35-75%) 4= Almost Certain (>75%)	
1 = Negligible Impact: • Minor service disruption • Minor Injury • Financial loss < £250k • Isolated complaints	**2 = Minor Impact** • Service disruption • Loss time injury • Financial loss >£250k - £500k • Adverse local media coverage • Failure to achieve a service plan objective
3 = Major Impact • Significant service disruption • Major/disabling injury • Financial loss >£500k - £1m • Adverse national media coverage • Failure to achieve Corporate Plan objective	**4 = Critical** • Total service loss for a significant period • Fatality to employee, service user or other • Financial loss >£1m • Ministerial intervention in running service

4.3 This methodology enables each risk to be categorised as either low, medium or high in nature and prioritisation as regards mitigations can be applied.

5. Management Team Review

5.1 Mitigations continue to be applied as control measures across all risks. Management Team have noted this. A number of examples are provided below:

- Information Governance - a work plan has been created to ensure that all service areas are re-visited to assess on-going compliance with GDPR requirements and to strengthen information governance arrangements.

- People First – a new customer complaints policy has been introduced and more effective monitoring and evaluation of customer feedback is now in place.

- Partnerships – a review has been undertaken to identify the Council's strategic partnerships and a mechanism has been created to ensure on-going monitoring and reporting of effectiveness and relevance.

- Business Continuity – The Council partook in a county-wide major event simulation exercise and the learning from this has been fed into business continuity arrangements.

5.2 During their reviews of the strategic risk register, no additional strategic risks have been identified by the Management Team.

6. Future Plans

6.1 In March 2019, the Council will be introducing a new Corporate Plan to cover the period 2019-2023. This will necessitate a fresh appraisal of the Council's strategic risks.

6.2 Work is planned with both officers and Members to assess the Council's overall appreciation of risk and to identify its risk appetite.

6.3 On the back of this work, the Council's new risk strategy will be produced. It is anticipated that this will be in place in the Autumn of 2019 and it will be presented to this Committee.

Strategic Risks – January 2019 - Appendix 1

Risk Rating Matrix:

Impact	Critical	4	8	12	16
	Major	3	6	9	12
	Minor	2	4	6	8
	Negligible	1	2	3	4
		Hardly Ever	Possible	Probable	Almost Certain
	Likelihood				

Title	Allocated To	Description of Potential Risk	Risk Level	Control	Control Measures	Review Date	Actions	Review Period
Information Governance	Ian Knowles	Data leakage and successful cyber-crime attempts occur leading to financial, reputational and legal consequences due to lack of robust controls, policies and processes which are not communicated to and followed by staff and Members.	High	Treat	1. Data processing and storage complies with legislation. 2. Data quality is addressed within information policies. 3. Information Security training sessions are regularly held - latest in Feb 2018. 4. Data Quality policy in place. 5. Roles of Corporate Information Governance Group (CIGG), Senior Information Risk Owner (SIRO) and Senior Information Governance Officer (SIGO) established. 6. Information Asset Owners in place across the Council. 7. Information	30/06/2019	1. Ensure that Information Governance is built into the organisation's culture. 2.. Undertake 'audits' across service areas to test for robustness	Quarterly

					Governance Strategy in place. 8. On-going monitoring of developments in this field. 8. Data Protection Training undertaken across Council in Summer '16 and Spring '17. 9, Paper to GCLT on IG update Feb 2017. 10. PSN Certification achieved (Aug '17). 11.DPO in place and agreed. 12. GDPR Readiness audit - substantial assurance finding. 13. GDPR live date May 2018, implementation completed. 14. Work plan in place to revisit service areas and test strength of Information governance arrangements			
Open for Business	Eve Fawcett-Moralee	The achievement of the growth targets lags behind the local plan. The increase in tax base does not match ambition.	Medium	Treat	1. Capital Programme in place. 2. Strategic Partnerships formed (GLLEP). 3. LDO's and FEZ in place. 4. Growth Programme developed. 5. Effective Local Plan in place. 6 Progress and Delivery project reporting to Members. 8. Tourism working group in place. 6. Recruitment of a professional team has taken place and the appropriate skills and capacity are now available. 7. Professional legal and commercial advice has been procured. 8. Housing Strategy has been adopted. 9. Delivery vehicles established to deliver open for business outcomes.	30/06/2019	1. To ensure that there is an enabling approach in all land based services. 2. Due to the lag in the take up of strategic employment land - a number of incentives need to be established and approved. 3. Due to viability constraints commencement of SUEs has been delayed. Therefore HIF grant and the development partnership will be	Quarterly

							utilised to progress this matter	
People First	Mark Sturgess	Customer - We do not deliver a customer focused approach, provide appropriate infrastructure and facilities for residents and businesses. Community & Residents - We do not provide leadership of place for our communities and residents to ensure their well-being isn't adversely affected. Workforce - We do not develop, equip and support staff to be fully effective in their roles thereby unable to adhere to our customer focused, entrepreneurial principles, resulting in poor service, non-motivated work force and providing an unattractive offer both for residents	Medium	Treat	1. Gainsborough Growth Programme in place. 2. Effective Local Plan agreed and now in implementation and monitoring stage. 3. People Strategy developed incorporating culture change elements. 4. Active lead role played in Health & Well-being and Skills agendas. 5. C&I Committee review into youth unemployment with formal support provided for West Lindsey Employment & Skills Partnership. 6. Oct 2017 self-assessment carried out to demonstrate compliance with S11 of the Children Act 2004 as required by Safeguarding Children Board. Awaiting moderation. Effective compliance and good practice across most areas, with one area in need of development; complaints policy. 7. Customer First programme initiated with Board in place; vision and strategy defined, delivery phasing and outline delivery plans in place. 8. Leisure review completed. 9. Revised customer complaints policy and process implemented.	30/06/2019	1. Deliver the customer first programme via detailed delivery plans.	Quarterly

		and inward investment.						
Asset Management	Eve Fawcett-Moralee	Our assets are underutilised, generate lower returns than required, do not facilitate inward investment or deliver fewer social benefits than expected.	Medium	Treat	1. Strategic Land & Property Plan in place. 2. Business Plan in place providing assurance on resourcing and implementation. 3. Land and Property review undertaken. 4. Asset mgt database (CAMS) in place and fully utilised. 5. Rolling stock condition survey programme implemented. 6. Planned maintenance programme being worked to. 7 Managed by programme board. 8. Appraisal matrix developed to support commercial propert y investment decisions. 8 Key recruitment has taken place to give appropriate capability and capacity	30/06/2019	2. Post Grenfell - need to complete a compliance audit of LA assets and therefore ensure that sufficient safeguards and protections are in place.	Six-Monthly

Partnerships	Ian Knowles	Partnerships - We do not fulfil our role as influencer, shaper and co-ordinator of major economic, social and environmental issues that affect the District. Partnerships - Our delivery vehicles for shared estates or trading companies do not effectively deliver against their intended purpose and achieve VfM.	Medium	Treat	1. Management Team review of strategic partnerships to assess their effectiveness and on-going relevance. 2 ACOP in place to support consistent approach to partnership working. 3. Review of partnerships completed and recommendations made to Mgt Team/CPR to ensure on-going assessment of effectiveness of partnership arrangements.	30/06/2019	1. Review and report on the Governance of major projects and commercial activity 2. Relevant terms of references are revisited regularly and reported on to management team and Governance and Audit Committee. 3. Update partnership ACoP.	Quarterly
Excellent VfM Services	Mark Sturgess	We do not identify and implement efficient and effective, lower-cost alternative service delivery models. We do not ensure sufficient focus on the financial drivers and value for money considerations of change/improvement proposals. We do not use effective benchmarking data to inform VfM decisions and failure of	Medium	Treat	1. Functional analysis completed and results analysed to provide an internal benchmark. 2. People Strategy focusing on expected skills and behaviours. 3. Development Management improvement plan complete. 4. Programme/project management methodology and structures in place. 5. Progress & Delivery reporting in place. 6. Localism restructure implemented providing refreshed focus on the service. 7. VfM Handbook devised for staff and presentation to SLT. 8.	30/06/2019	1. Appraise and design new service delivery model within Customer First Programme. 2. Establish ICT requirements to enable VfM services to be delivered. 3. Work through VfM work plan	Six-Monthly

		partnership mechanisms to deliver VfM considerations.			Annual Business Planning exercise undertaken to drive efficiencies and improvements 9. Reviews of both function and structure undertaken across a number of services - enforcement, property and assets, economic development and housing. 9. Service improvement plans have delivered improved performance in development management and local land charges. 10. VfM report to CPR and work plan devised to strengthen all elements pertaining to VfM.			
Commercial Approach	Ian Knowles	Commercial Projects do not deliver anticipated benefits resulting in increased financial pressures	High	Treat	1. Commercial Strategy forms business plan. 2. Commercial steering group (including Members) established. 3. Programme Board has oversight of high risk commercial programmes and investments. 4. Capital Programme oversight and Progress and Delivery project reporting to Members. 5. Budget Monitoring undertaken, including Trading Statements. 6. Substantial assurance audit finding (Oct 2016) re Traded Services. 7. Creation of Trading and Operational Services Manager to provide capacity & capability now forms role of Strategic Manager Services. 8. Annual Business Planning	30/06/2019	1. Ensure appropriate skills, capacity and structures are in place to deliver commercial initiatives. 2. Ensure governance arrangements are reviewed and remain robust.	Quarterly

					exercise designed to identify commercial opportunities across service areas. 9. Findings of Commercial Plan audit responded to.			
Corporate Health & Safety	Mark Sturgess	We do not adequately ensure that our staff and visitors are protected in the workplace from accidents or work-related ill-health by eliminating hazards from work activities where possible and where not, assessing and ensuring adequate control of the associated risks. This leads to an unsafe workplace and inadequate care for staff and potential legal action	Medium	Treat	1. KMSKMW group in place to consider H&S issues. 2. H&S co-ordinator role in place. 3. H&S Champions across the Council. 4. Regular H&S walks undertaken to identify and report potential hazards in the workplace. 5. Stress management awareness for staff and subscription to CareLine facility. 6. Regularly reviewed service level H&S and lone working risk assessments and protocols in place. 7. Regular H&S council-wide training undertaken. 8. Reporting to Mgt Team/JSCC on H&S incidents. 9. JSCC considers H&S related matters. 10. Dignity at Work training undertaken in Nov '16. 11. Programme of H&S associated training developed.	30/06/2019		Six-Monthly
Compliance	Ian Knowles	We do not comply, or fail to correctly implement relevant, statutory legislation resulting in adverse reputational impacts and legal and	Medium	Treat	1. Horizon Scanning functions undertaken. 2. Monitoring Officer in place. 3. Annual production of Governance Statement. 4. Regular liaison with Lincs Legal Shared Services. 5. Legal implications detailed in reports. 6. Review	30/06/2019	1. Undertake review of Horizon Scanning function to ensure it provides management team with quality information and strategic oversight to inform resource	Quarterly

		financial consequences.			undertaken of CIPFA Delivering Good Governance guidance and reference made in WLDC Constitution. 7. Appropriate legal agreements in place to oversee governance and operations of Council's partnerships/joint venture and commercial arrangements.		prioritisation and allocation.	
Business Continuity	Mark Sturgess	Council services are not maintained and priority services are not provided in the event of significant disruption or a major emergency in the District.	Medium	Treat	1. Business Continuity Plan in place. 2. Regular training events held. 3. Use of LCC based Emergency Planning Officer. 4. ICT recovery policy and protocols. 5. Service level business continuity plans in place. 6. Out of Hours rota in place. 7. WLDC access to Resilience Direct website and resources. 8. WLDC involved in major incident scenario - Spring 2018.	30/06/2019	1. Review of effectiveness of service level business continuity plans.	Quarterly

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.

Date	Title	Lead Officer	Purpose of the report
12/03/2019	**Combined Assurance Report**	James O'Shaughnessy	To present the Council's Combined Assurance Report for 2018/19
	Internal Audit Charter	Tracey Bircumshaw	To provide independent and objective assurance on critical activities and key risks
	Closure of Accounts 18/19 + External Audit Plan	Caroline Capon	To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2018/19 accounts. For the External Auditor to explain the process of the External Audit of the Statement of Accounts and approach to the Value for Money Audit 2018/19.
	Counter Fraud and Corruption Policy	Tracey Bircumshaw	After a review by the Fraud partnership and due to the additional requirements of new regulations the money laundering and corruption reports have been separated.
16/04/2019	**Constitution Review**	Alan Robinson	The purpose of the report is for the Governance and Audit Committee to recommend to Council the proposed amendments to the Constitution.
	Internal Audit Q4 Monitoring	James O'Shaughnessy	To feedback on Quarter 4 to G and A Committee
23/07/2019	**Six Month Review of AGS 2017/18**	James O'Shaughnessy	6 monthly review of the AGS
	Internal Audit Q1 Monitoring 19/20	James O'Shaughnessy	Internal Audit to present the monitoring report from the first quarter.
15/10/2019	**Draft Annual Treasury Management Strategy**	Tracey Bircumshaw	To present the Draft Annual Treasury Management Strategy Report

	Internal Audit Q2 Monitoring 19/20	James O'Shaughnessy	Internal Audit to present the monitoring report from the second quarter.
14/01/2020	**Certification of Grants and Claims**	Tracey Bircumshaw	To present the Certification of Grants and Claims report.
	Internal Audit Monitoring Report - Period 3 19/20	James O'Shaughnessy	To present the Internal Audit Monitoring Report for Period 3
14/04/2020	**Internal Audit Q4 Monitoring 19/20**	James O'Shaughnessy	Internal Audit to present the monitoring report from the fourth quarter.