



## Lewes District Council

### To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Ditchling Room, Southover House, Southover Road, Lewes Southover House, Southover Road, Lewes** on **Monday, 22 January 2018** at **10:00** which you are requested to attend.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

16/01/2018

Catherine Knight  
Assistant Director of Legal and Democratic Services

### Agenda

- 1 Minutes**  
To approve the Minutes of the meeting held on 27 November 2017 (copy previously circulated).
- 2 Apologies for Absence/Declaration of Substitute Members**
- 3 Declarations of Interest**  
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent Items**  
Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

- 5 Written Questions**  
To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).
- 6 Annual Report on Use of Covert Surveillance (page 3)**  
To receive the report of the Assistant Director of Legal and Democratic Services (attached herewith)
- 7 Charter for Internal Audit and Counter Fraud (page 8)**  
To consider the Report of the Head of Audit and Counter Fraud (attached herewith)
- 8 Interim Report on the Council's Systems of Internal Control 2017/18 (page 24)**  
To receive the Report of the Head of Audit and Counter Fraud (attached herewith)
- 9 Treasury Management (page 36)**  
To consider the report of the Deputy Chief Executive (attached herewith).
- 10 Annual Treasury Management Strategy Statement and Investment Strategy 2018/2019 to 2020/2021 (page 41)**  
To consider the Report of the Deputy Chief Executive (attached herewith)
- 11 Date of Next Meeting**  
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 19 March 2018 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10:00am.

For further information about items appearing on this Agenda, please contact Zoe Downton at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600.

**Distribution:** Councillors M Chartier (Chair), S Catlin, J Denis, N Enever, S Gauntlett, A Loraine and R O'Keeffe

*(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer – [zoe.downton@lewes-eastbourne.gov.uk](mailto:zoe.downton@lewes-eastbourne.gov.uk))*

**Agenda Item No:** 6

**Report Title:** Annual Report on Use of Covert Surveillance

**Report To:** Audit and Standards Committee      **Date:** 22 January 2018

**Cabinet Member:** Cllr Andy Smith

**Ward(s) Affected:** All

**Report By:** Catherine Knight, Assistant Director of Legal and Democratic Services and RIPA Senior Responsible Officer

**Contact Officer(s)-**

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**Purpose of Report:**

To report on the Council's use of powers under the Regulation of Investigatory Powers Act 2000 ('RIPA') to authorise the use of covert surveillance during 2017; and to brief the Committee on (1) an internal review of Council online surveillance and (2) an external inspection into the Council's governance arrangements for authorising the use of covert surveillance.

**Officers Recommendation(s):**

- 1 To note the incidence of Council authorisations under RIPA for covert surveillance operations during 2017.
  - 2 To note the findings and recommendations of an interim review by Internal Audit into the Council's use of online surveillance.
  - 3 To note the outcome of the recent inspection into the Council's use of RIPA powers to conduct covert surveillance, conducted by the Investigatory Powers Commissioner's Office.
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**1 Reasons for Recommendations**

- 1.1 It is part of this Committee's remit to review the Council's governance arrangements for conducting covert surveillance and to provide assurance to the Council that if/when carried out, surveillance of this type complies with the relevant policy and legislation. Also, the Investigatory Powers Commissioner

expects all local authorities to keep its members informed of these matters at least annually, to enable them to oversee the arrangements.

## **2 Information**

### **2.1 RIPA**

2.1.1 As a reminder, RIPA provides the legislative framework that prescribes how specified bodies, including local authorities, may conduct certain forms of surveillance lawfully; this includes “directed” surveillance (which is covert surveillance that is likely to result in the obtaining of private information and done for the purposes of a specific investigation or a specific operation); covert activity conducted in accordance with RIPA is deemed lawful and therefore a legitimate interference with the subject’s right to privacy.

2.1.2 For Council directed surveillance to be lawful under RIPA, it must–

- (i) be authorised by a designated officer on the grounds that it is:
  - (a) necessary for the purpose of preventing or detecting a crime that attracts a maximum custodial sentence of 6 months or more; or necessary for preventing disorder;
  - (b) proportionate to what is sought to be achieved by carrying it out;
- (ii) approved in advance by a magistrate.

### **2.2 Incidence of RIPA Authorisations during 2017**

2.2.1 No Council authorisations under RIPA were sought or given during 2017 in relation to directed surveillance. This follows the pattern of the previous nine years and reflects the Council’s policy of authorising directed surveillance only after all other reasonable options have been considered but deemed unsuitable or inadequate.

2.2.2 Nonetheless, the Investigatory Powers Commissioner expects local authorities to retain the knowledge and skills to enable them to authorise directed surveillance under RIPA, should the need arise. To this end, the Council provided RIPA refresher training to relevant officers in July 2017, as a result of which the Council now has a pool of four trained authorising officers. In addition, the Council has access to an online ‘toolkit’ with all the forms and procedures required for a RIPA authorisation.

### **2.3 Internal Review of Online Surveillance**

2.3.1 The annual audit programme for 2017/18 includes an audit of compliance with RIPA. Owing to specific concerns raised by the Chief Surveillance Commissioner about public authority surveillance of social networking sites, it was decided that the audit should focus on (1) the Council’s controls over the use of social media for investigative and

research purposes and (2) the adequacy of the RIPA Monitoring Officer's draft guidance on the circumstances when RIPA authorisation might be required for activity of this type.

2.3.2 The audit took place in October 2017 and comprised an interim review on the basis that, once the recommendations were implemented, a fuller audit could be rolled out to establish the level of compliance across Lewes and Eastbourne councils.

2.3.3 The review set out to determine the likely scope of social media use by officers for business purposes, and to comment on the guidance and training that officers might need in terms of controls and authorisations required.

2.3.4 The key findings of the review were as follows:

- The level of knowledge among officers (both managerial and frontline) concerning the practical and legal issues with accessing social media sites varies widely
- Officers who access social media sites do so for a range of applications; only seldom would this amount to 'surveillance'. More routinely, officers resort to social media sites to seek information that may assist their enquiries about unpaid council tax or business rates, assessing applications for housing benefit of social housing, confirming the identity of a claimant, or trying to establish the whereabouts of tenant
- Some officers do not know how to access social media sites, even if doing so would be useful for information gathering
- There is a lack of understanding about the particular controls and authorisations required for accessing social media sites where privacy settings are in place
- Officers have not received clear and consistent training on how to access social media sites and the circumstances in which RIPA authorisation would be necessary.

2.3.5 The review recommends that the RIPA Monitoring Officer's draft guidance be updated to address the key findings, and communicated via training sessions with relevant teams. The RIPA MO has undertaken to complete this by the end of March 2018.

2.3.6 The amended guidance will also take account of the draft update to the Home Office Code of Practice on the use of RIPA powers to conduct directed surveillance, which includes a new section on carrying out online covert activity. The draft amended Code of Practice was subject to consultation in Nov-Dec 2017; the definitive version is expected shortly.

## 2.4 IPCO Inspection

- 2.4.1 Every 3 years the Investigatory Powers Commissioner's Office ('IPCO') carry out an inspection of the Council's arrangements to secure compliance with legislation governing the use of covert surveillance and the management of covert human intelligence sources. The most recent inspection took place in October 2017.
- 2.4.2 The inspection examined all the Council's training and authorisation procedures. In addition, an Assistant Commissioner interviewed the RIPA Senior Responsible Officer (Catherine Knight), the RIPA Monitoring Officer (Oliver Dixon) and a Counter-Fraud Investigator about RIPA governance here.
- 2.4.3 The inspection report gives credit for the RIPA training provided to authorising officers and the draft guidance on surveillance of social media sites. However, it recommends raising RIPA awareness across a broader spectrum of officers, especially with those likely to be engaged in surveillance or research through social media sites. As noted in paragraph 2.3.5 above, the RIPA Monitoring Officer is committed to provide the necessary training by the end of March.
- 2.4.4 The inspection report also recommends providing training on when and how to authorise the use of a covert human intelligence source ('CHIS'). Historically, the Council has never authorised deployment of a CHIS but, with an increasing proportion of research and investigations being carried out online through social media sites, using a CHIS may be justifiable when the Council has legitimate grounds for overcoming security settings. The training referred to in paragraph 2.3.5 will include the management of CHIS.
- 2.4.5 The inspection report reminds the Council of the requirement (under the Home Office Code of Practice) to keep Members abreast of RIPA activity or inactivity. This report to Audit & Standards Committee provides Members with their regular annual update. Additionally, the Council has already committed to brief the Committee following the conclusion of any specific instance of covert surveillance or deployment of CHIS.

## **3 Financial Appraisal**

There are no significant financial implications associated with the officers' recommendations at the head of this report.

## **4 Legal Implications**

The legislative context of this report is Part 2 of RIPA which provides the basis on which local authorities may lawfully carry out directed surveillance and deploy a covert human intelligence source. RIPA is supported by a number of Home Office codes of practice, as well as procedural guidance issued by the Office of Surveillance Commissioners (now the IPCO).

Directed surveillance conducted in accordance with RIPA is lawful. Directed surveillance conducted outside the aegis of RIPA is not necessarily unlawful but risks amounting to a breach of the subject's right to a private life. Accordingly, if the Council is ever contemplating surveillance of this sort, adhering to the authorisation procedures and processes laid down in RIPA is always preferable.

## **5 Risk Management Implications**

The lawful use of directed surveillance and CHIS is tightly regulated by legislation, codes of practice and regulatory inspections in order to minimise the risk of interference with a person's right to a private life.

That risk can be mitigated by complying not only with the legislative framework but also the Council's own policies and procedures on RIPA, maintaining the training of authorising officers and investigating officers, and in carrying forward the recommendations of internal audit and external inspection.

## **6 Equality Screening**

There are no equality issues arising from this report

## **7 Background Papers**

LDC Policy Statement on Use of Covert Surveillance

Home Office Code of Practice on Covert Surveillance and Property Interference (including draft revisions subject to consultation in Nov-Dec 2017)

**Agenda Item No:** 7

**Report Title:** Charter for Internal Audit and Counter Fraud

**Report To:** Audit and Standards Committee    **Date:** 22 January 2018

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

**Contact Officer**

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### **Purpose of Report:**

To present to Councillors the proposals for a revised version of the Internal Audit Charter. The new version will include the Counter Fraud service and will be applied to the shared service for Audit and Counter Fraud at Lewes District Council (LDC) and Eastbourne Borough Council (EBC).

### **Officers Recommendation(s):**

- 1 To note the results of the review of current professional practice for Internal Audit and Counter Fraud (see paragraphs 3.1 to 3.2).
  - 2 To approve the proposed revised version of the Charter for Audit and Counter Fraud (see Appendix A).
  - 3 To note that a revised version of the Guide to Internal Audit and Counter Fraud will be added to the LDC Intranet for the guidance of staff and Councillors (see paragraphs 5.1 to 5.3).
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### **Reasons for Recommendations**

- 1 At its meeting in March 2013, the Audit and Standards Committee approved changes to the working methods, documentation and reporting arrangements for Internal Audit that had arisen from key changes in the Public Sector Internal Audit Standards (PSIAS) 2013. The PSIAS have been updated, with new standards published in April 2017. The Head of Audit and Counter Fraud has reviewed the PSIAS for their impact on Internal Audit and Counter Fraud at Lewes, and is advising the Audit and Standards Committee of the results of the review.
- 2 The meeting of the Committee in March 2013 also examined the impact of the PSIAS on two documents - the Charter for Internal Audit and the Guide to Internal Audit. These documents have been revised to take account of PSIAS 2017, and to take account of the setting up of the shared Audit and Counter Fraud service.



## Information

### 3 Impact of PSIAS 2017

- 3.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that applied from 1 April 2013. The standards were updated in 2016, with the impact of the new standards reported to the September 2016 meeting of the Committee.
- 3.2** The PSIAS have been updated again in 2017. The changes are not significant, being mainly concerned with clarifications to the wording in areas dealing with issues such as safeguarding the independence of Internal Audit, the monitoring of the effectiveness of Internal Audit and the role of Internal Audit in improving an organisation's governance processes. The Head of Audit and Counter Fraud believes that the changes are not sufficiently material to justify a separate report to the Committee.

### 4 Update of the Charter for Internal Audit

- 4.1** The formal integration of the Internal Audit and Counter Fraud Teams in EBC and LDC took place on 1 July 2017 as part of the integration of the majority of council services via the Joint Transformation Programme (JTP). The review of the PSIAS 2017 has provided the opportunity to update the Charter to introduce a common approach for the shared services at both councils.
- 4.2** Previous versions of the respective charters at both LDC and EBC covered only Internal Audit. The Counter Fraud Team (previously the Fraud Investigation Team) has been part of Internal Audit at LDC since November 2014, and the activities of the team have been covered in the standard set of reports forwarded to the Committee. The review of the PSIAS 2017 has provided the opportunity to update the Charter to include the shared Counter Fraud services for both councils.
- 4.3** A copy of the revised Charter is given at Appendix A. The contents of the Charter are divided into the following sections:
- Introduction
  - Purpose
  - Requirement for Internal Audit and Counter Fraud
  - Authorisation
  - Organisation and Relationships
  - Role and scope
  - Mission Statement and Service Objectives
  - Independence
  - Professional Standards
  - Audit Strategy and Resources
  - Reporting
  - Quality Assurance and Improvement
  - Code of Ethics for Internal Audit and Counter Fraud
- 4.4** The revised Charter reflects the wording of the PSIAS 2017 and the equivalent guidance for counter fraud work – the CIPFA Code of Practice on managing the risk of fraud and corruption.

## **5 Update of the Guide to Internal Audit**

- 5.1** Previous versions of the Charter for Internal Audit have been summarised and simplified into a Guide to Internal Audit, which has been available on the LDC Intranet as a source of information for managers, staff and Councillors. The Guide is presented in a question and answer form, which seeks to explain what Internal Audit does and to alleviate any concerns for anyone who may not have come into contact with the service before.
- 5.2** Previously, the Guide did not cover the work of the Counter Fraud service. That situation is now being rectified, and the updated Guide will include the shared Counter Fraud services for both councils.
- 5.3** Once the Committee has approved the revised Charter, that document will form the basis of the updated Guide. A draft of the Guide has not been included with this report as it would largely represent a duplication of the Charter. The Head of Audit and Counter Fraud will advise the Committee when the updated Guide has been loaded on to the Intranet.

## **6 Financial Appraisal**

- 6.1** There are no additional financial implications from this report.

## **7 Sustainability Implications**

- 7.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

## **8 Risk Management Implications**

- 8.1** If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

## **9 Legal Implications**

- 9.1** There are no legal implications arising from this report.

## **10 Equality Screening**

- 10.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

## **11 Background Papers**

- 11.1** None

## **12 Appendices**

- 12.1** Appendix A – Charter for Internal Audit and Counter Fraud.

Appendix B - Table of abbreviations.

## Appendix A

# CHARTER FOR INTERNAL AUDIT AND COUNTER FRAUD

## 1 Introduction

- 1.1 The purpose of this Charter is to define the purpose, authority and responsibilities of the shared Audit and Counter Fraud Service for Eastbourne Borough Council (EBC) and Lewes District Council (LDC).
- 1.2 The Charter establishes the position of the service within both councils, sets out the scope of internal audit and counter fraud activities, and outlines the key aspects of the professional practice of internal audit and counter fraud.
- 1.3 The standards governing the work of an Internal Audit service are laid down in the Public Sector Internal Audit Standards (PSIAS) which came into effect in in 2013. The PSIAS were updated in April 2017 to incorporate a mission statement for Internal Audit and the ten mandatory core principles for the professional practice of internal auditing.
- 1.4 In recent years, central and local government has sought to develop new initiatives to counter fraud and corruption. In recognition of these priorities the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasises that leaders of public services have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 1.5 The councils are committed to operating in accordance with the requirements of the PSIAS and the CIPFA Code of Practice. This Charter seeks to ensure full compliance with these standards.

## 2 Purpose

- 2.1 Internal Auditing is an independent and objective assurance and consulting activity designed to add value and improve the operations at both councils. Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.
- 2.2 The organisation of Internal Audit and Counter Fraud within a single service facilitates the sharing of information and resources between both activities, enables a greater understanding of the importance of internal controls in helping to prevent fraud across all services at the councils, and has created more opportunities to focus efforts on the areas of potential risk.
- 2.3 The existence of the Audit and Counter Fraud Service does not diminish the responsibility of line management to establish appropriate and adequate systems of internal control and risk management. The Audit and Counter Fraud Service is not

a substitute for the functions of line management who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner.

### **3 Requirement for Internal Audit and Counter Fraud**

- 3.1 The requirement for an Internal Audit function within Local Authorities has been established and developed over a period via a series of legislative Acts and government regulations, the most recent being the Accounts and Audit Regulations 2003, as amended in 2006 and 2011.
- 3.2 The Accounts and Audit Regulations 2011 specifically require that a “relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control.”
- 3.3 The councils have had in place for some years a framework of formal strategies and policies in order to maintain a strong anti-fraud and corruption culture. The councils remain alert to the risk of fraud and corruption, and have in place a network of systems, procedures and controls to protect their assets and services against these risks. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity. Up until 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption, but now the main counter fraud body at the councils is the Counter Fraud team.

### **4 Authorisation**

- 4.1 The Audit and Counter Fraud Service is authorised to have full and complete access to any of the records (manual and electronic), cash, stores and other assets, and may enter property or land, that are relevant to the performance of engagements at both councils. Such access shall be granted on demand and shall not be subject to prior notice, although in practice the provision of prior notice is reasonable and the normal approach except when circumstances indicate otherwise.
- 4.2 Internal Audit and Counter Fraud access will also extend to partner bodies or external contractors working on behalf of the councils, but access will need to be arranged via the senior Council officer named in the contract or partnership agreement. In addition, Internal Audit and Counter Fraud is authorised to have unrestricted access to all elected Councillors, Chief Officers and Council employees as is necessary for the proper performance of their duties.

### **5 Organisation and Relationships**

- 5.1 The PSIAS require that the terms ‘Chief Audit Executive,’ ‘Board’ and ‘Senior Management’ are defined in the context of the governance arrangements in each public sector organisation in order to safeguard the independence and objectivity of Internal Audit. Although not formally specified in the CIPFA Code of Practice, these governance arrangements will apply equally to Counter Fraud. At EBC and LDC, the following interpretations are applied so as to ensure the continuation of the current relationships between Audit and Counter Fraud and other key bodies at both councils.

#### **Chief Audit Executive**

For the shared Audit and Counter Fraud Service, the Chief Audit Executive is the Head of Audit and Counter Fraud (HACF). The Audit and Counter Fraud Service sits within Corporate Services, and the HACF reports operationally to the Deputy Chief Executive (DCE).

### **Board**

In the context of overseeing the work of Internal Audit and Counter Fraud, the 'Board' at EBC is the Audit and Governance Committee. At LDC the 'Board' is the Audit and Standards Committee. The two committees are responsible for, amongst other things, agreeing the Charter for Audit and Counter Fraud, agreeing the Audit Plan (see Section 10 below), monitoring the work of Internal Audit and Counter Fraud, and keeping the progress of the plans under review. Audit and Counter Fraud works closely with the Chairs of both committees to facilitate and support their activities.

### **Senior Management**

'Senior Management' are the Chief Executive (CE), Deputy Chief Executive (DCE), Directors and Assistant Directors who are members of the Corporate Management Team (CMT). In practical terms, Audit and Counter Fraud engages most frequently with the senior officers with responsibility for specific aspects of corporate governance - the Section 151 Officer (DCE) and the Monitoring Officer (Assistant Director Legal and Democratic Services (ADLD)).

### **Relationships**

- 5.2 The Audit and Counter Fraud Service will establish and maintain good working relationships and effective channels of communication with elected members, not just those members who may comprise the respective Boards.
- 5.3 The Audit and Counter Fraud Service will establish and maintain good working relationships and effective channels of communication with managers and staff at all levels of the organisations to build confidence in the integrity, independence and capability of the service. These relationships will not detract from the duty to report control issues where necessary.
- 5.4 The Audit and Counter Fraud Service and the councils' external auditors operate in accordance with an agreed protocol that sets out the relationship between internal and external audit. The protocol supports regular liaison between the two bodies in order to minimise any duplication of work and determine the assurance that can be placed on the respective work of the two parties.
- 5.5 The Audit and Counter Fraud Service co-operates with all external review and inspection bodies that are authorised to assess, inspect or review the activities of the councils to determine compliance with regulations, standards or targets. Internal Audit may determine the level of assurance that can be obtained from this work, and may rely on this assurance as part of the work to provide an opinion on the control environment.
- 5.6 The Audit and Counter Fraud Service co-operates with the corresponding services from local authorities and other public bodies in Sussex that are members of bodies such as the Sussex Audit Group (SAG), the East Sussex Counter Fraud HUB (ESCFH) and the East Sussex Fraud Officers Group (ESFOG) for the purpose of sharing best practice and benchmarking.

## **6 Role and Scope**

- 6.1 The primary role of Audit and Counter Fraud is to be an assurance function that provides an objective assessment of the whole framework of governance, risk management and control – not just the financial systems.
- 6.2 The main aspects of this role are to review and evaluate, and contribute to the improvement of, the:
- completeness, reliability and integrity of financial, management and performance information;
  - design and effectiveness of internal controls;
  - means of safeguarding the assets, employees and interests;
  - processes for identifying, reporting and managing risks;
  - systems established to ensure compliance with policies, plans, contracts, laws, and regulations including those set by the councils and those established externally;
  - economy, efficiency and effectiveness in the use of resources;
- 6.3 In addition, Audit and Counter Fraud may undertake consulting services that are advisory in nature and generally performed at the request of senior management. Audit and Counter Fraud will give advice on any aspect of governance, internal control and fraud prevention on request.
- 6.4 Internal Audit will support DCE in the discharge of the duties of the Section 151 Officer with responsibility for the probity and effectiveness of the councils' financial arrangements and internal control systems;

## **7 Mission Statement and Service Objectives**

- 7.1 The Audit and Counter Fraud Service has the following mission statement and service objectives:

### **Mission Statement**

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### **Service Objectives**

To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.

To deliver the Councils' Audit Plans.

To provide an efficient and effective Counter Fraud Team that supports the councils' Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

## **8 Independence**

- 8.1 The Audit and Counter Fraud Service operates within an organisational framework that preserves the independence and objectivity of the functions, and ensures that Internal Audit and Counter Fraud activity is free from interference in determining the scope of internal auditing, performing work and communicating results.
- 8.2 The framework allows the HACF (and Audit Managers when appropriate) direct access to, and the freedom to report to, the Audit and Standards Committee/Audit and Governance Committee, the Chief Executive, Deputy Chief Executive (DCE/Section 151 Officer), the Assistant Director of Legal and Democratic Services (ADLP/Monitoring Officer) and the Corporate Management Team (CMT).
- 8.3 Staff within Audit and Counter Fraud have no direct responsibilities or authority over any of the activities that they review or examine. They shall not develop or install systems or procedures, prepare records or engage in any other activity that they would normally review. They will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which he/she auditor had responsibility within the previous year. The only exception will be where resource issues do not enable this degree of separation, and then HACF will apply strict oversight of the work to ensure objectivity. HACF acknowledges that staff changes arising from the joint transformation programme could create more frequent instances where objectivity may be placed at risk.
- 8.4 Staff within Audit and Counter Fraud may provide consulting services or give advice relating to operations for which they had previous responsibility. They may provide assurance for operations where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity and the issue of individual objectivity is managed when assigning resources to assurance assignments.
- 8.5 Every effort will be made to ensure that all members of the Audit and Counter Fraud Service are free from conflicts of interest and do not undertake non-audit duties, with the exception of high priority duties required because of the demands placed upon the councils. If any such non-audit work is required it will be authorised by DCE and approved by the Audit and Governance Committee/Audit and Standards Committee, with the understanding that the member of staff will not then be functioning as an internal auditor/fraud investigator.

## **9 Professional Standards**

- 9.1 The shared Audit and Counter Fraud Service operates in accordance with the PSIAS 2017 and the CIPFA Code of Practice on managing the risk of fraud and corruption.. A copy of the PSIAS and the Code is held in both of the Audit and Counter Fraud offices for reference. The PSIAS include the following mandatory Core Principles, which will apply equally to Counter Fraud. .

### **Core Principles for the Professional Practice of Internal Auditing**

- Demonstrates integrity.
- Demonstrates competence and due professional care.



- Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future focussed.
  - Promotes organisational improvement.
- 9.2 The Audit and Counter Fraud Service is governed, however, by the policies, procedures, rules and regulations established by the councils. These include the Constitution (including Contract and Financial Procedure Rules) Conditions of Service, the Anti-Fraud and Corruption Strategy, and the Code of Conduct, among others. Similarly, the Audit and Counter Fraud Service takes due cognisance of external bodies, including CIPFA, and all legislation affecting the Council.
- 9.3 Audit and Counter Fraud staff shall govern themselves by adherence to the Code of Ethics for the service that is consistent with the Code of Ethics within the PSIAS. The Code of Ethics for the Audit and Counter Fraud Service is included in this Charter (Section 13).
- 9.4 The detailed working arrangements and methodology for the Audit and Counter Fraud Service are set out in the Audit and Counter Fraud Manual as maintained by HACF.

## **10 Audit Strategy and Resources**

- 10.1 It is standard practice for HACF to prepare a Strategic Audit Plan that sets out the scope and timing of internal audit and counter fraud work for the next three years. The plan is based upon a documented risk assessment that is undertaken annually, takes account of the results of consultation with the Corporate Management Team (CMT), and reflects the need to undertake sufficient work to enable HACF to produce an annual Internal Audit opinion.
- 10.2 Exceptionally, and in recognition of the significant changes in services, structure and organisation that are underway as a result of the merger of the two councils, the planning process is currently restricted to a single year. The Annual Audit Plan is subject to the same planning, consultation and risk assessment processes as the Strategic Audit Plan.
- 10.3 The Audit Plan (Strategic or Annual) is reviewed each year so that it can reflect the changing risks and priorities of the councils. The Audit Plan is agreed by the March meeting of the Audit and Governance Committee and the Audit and Standards Committee.
- 10.4 The Audit Plan includes provisions for consulting engagements and giving advice, together with an element of contingency to cover assignments that could not have



reasonably been foreseen and to meet management requests for investigations. The Audit Plan also includes the approach to using other sources of assurance (eg the external auditors).

10.5 The staffing of the Audit and Counter Fraud Service will comprise a mix of qualified and technician posts, with appropriate functional specialisms to reflect the key areas of work. The HACF will carry out a continuous review of the development and training needs of all personnel and will arrange in-service training via both internal and external courses as appropriate. Specific resources will be devoted to training in the specialist functions to keep abreast of current developments.

## **11 Reporting**

11.1 All Internal Audit assignments will be the subject of formal reports. Draft reports will be prepared in accordance with the standards set out in the Internal Audit Manual, and sent to the managers responsible for the area under review to agree the factual accuracy of findings. After agreement of the findings and recommendations, the reports will be finally issued to the Director or Head of the service under review, and other senior officers as appropriate.

11.2 Not all Counter Fraud assignments will be the subject of formal reports, although all completed counter fraud cases will be closed with a written summary of the case results. The extent of other formal reports will depend on the origins, circumstances and outcomes of individual cases.

11.3 The PSIAS specify the requirements for the reporting to the Board and senior management by HACF. These requirements are met via a series of reports presented to the respective Boards. These reports include:

- A report to obtain approval of the Audit Plan, and a report at the nine month stage to advise of, and seek approval for, variations to the plan.
- An annual report on the performance and effectiveness of the Internal Audit service. The report includes a review of the work undertaken by Internal Audit compared to the annual plan, a review of the service against its aims, strategy and objectives, a review of the independence of the internal audit activity, and an assessment of compliance with the PSIAS and the Code of Ethics.
- An annual report on the work to combat fraud and corruption. The report includes a review of the work undertaken by Counter Fraud compared to the annual plan, a review of the service against its aims, strategy and objectives, a review of the independence of the counter fraud activity, and an assessment of compliance with the CIPFA Code and the Code of Ethics.
- An annual report on the respective council's Systems of Internal Control, including an audit opinion of the HACF on the internal control, risk management and governance environment at the Council for the preceding year. The report will highlight significant risk exposures, control issues and governance matters, plus any other items requested by senior management and/or the Board.
- An Annual Governance Statement (AGS) that includes an assessment of the effectiveness of the key elements of the governance framework, an action plan for dealing with significant governance issues, and an opinion on the assurance

that the governance arrangements can provide.

- Interim reports to each meeting of the Board that cover the areas outlined above in the period since the beginning of the financial year. Each interim report will contain an appendix that includes an outline of each of the final audit reports issued since the previous meeting, and an appendix that outlines any significant recommendations that have not yet been implemented.

11.4 To facilitate the monitoring and review work of the Board, HACF shall make final audit reports and associated working papers available for inspection by members of the Board. The inspection will be by appointment in the Internal Audit office, and will be on a confidential basis. Access to audit reports on sensitive issues will be subject to agreement between the HACF and the respective Chair of the Board.

## **12 Quality Assurance and Improvement**

12.1 The PSIAS require the HACF to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. The quality assurance and improvement programme for counter fraud activity will include internal assessments only. The results of the quality assurance and improvement programme will be reported annually to senior management and the Board, including any non-conformance with the PSIAS, the CIPFA Code of Practice and the joint Code of Ethics.

### **Internal Assessments**

12.2 Internal assessments must include ongoing monitoring of the performance of the audit and counter fraud activity, and this will be carried out as an integral part of the day to day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine practices used to manage audit and counter fraud activity at both councils and uses processes and information necessary to evaluate compliance with the standards set out in the Charter for Internal Audit and Counter Fraud, including the Code of Ethics.

12.3 Ongoing monitoring will incorporate the following:

- A comprehensive set of targets for internal audit to measure performance, developed in consultation with the Board. The HACF will report appropriately on the progress against these targets, normally at the first opportunity after the end of a financial year;
- Appropriate arrangements for stakeholder feedback; and
- An action plan to implement improvements.

12.4 Internal assessments must also include periodic self assessments or assessments by persons within the organisation with sufficient knowledge of internal audit practices. The self-assessments will be carried out by the Audit Managers at Eastbourne and Lewes under the direction of HACF, and the results will form part of the annual reviews of internal audit and counter fraud activity.

### **External Assessments**

12.5 External assessments of internal audit must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self assessment with independent external verification. The HACF will agree with the Board and DCE:

- The form of the external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

12.6 The HACF will use professional judgement when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified. An independent assessor or assessment team means not having any real or apparent conflict of interest and not being part of, or under the control of either of the councils.

12.7 The HACF will determine an optimum approach to external assessment, which may involve peer reviews conducted by neighbouring authorities under the auspices of the regional audit group, the SAG.

### **Reviewing the Charter**

12.8 The Charter is periodically reviewed by HACF, and the results presented to the Section 151 Officer, the Monitoring Officer, CMT and the respective Boards.

## **13 Code of Ethics for Internal Audit and Counter Fraud**

### **Introduction**

- 13.1 A distinguishing mark of a profession is acceptance by its members of responsibility to the interests of those it serves. This Code of Ethics is a comprehensive statement of the values and principles that should guide the daily work of the Audit and Counter Fraud Service.
- 13.2 This Code of Ethics applies to all staff responsible for delivering the Audit and Counter Fraud Service but does not supersede or replace the requirements on individuals to comply with the ethical codes issued by their own professional bodies (eg CIPFA or The Chartered Institute of Internal Auditors (CIIA) or the Council's Code of Conduct for Officers.
- 13.3 The two councils are committed to meeting their statutory equality responsibilities, especially in relation to race, disability, gender, age, sexual orientation, and religion or belief. All officers are required to work in accordance with the councils' Equality Policy. Accordingly, Audit and Counter Fraud personnel will treat all colleagues with dignity and respect, and will ensure that our working practices eliminate discrimination and promote equality and good relations between different groups.

### **Principles**

- 13.4 The revised PSIAS incorporate ten core principles that govern the professional practice of internal auditing (see Section 9 above), and these apply equally to the professional practice of counter fraud. These principles can be summarised into four key values that underpin the work of Audit and Counter Fraud. These values are:
- Integrity – The integrity of internal auditors and counter fraud staff establishes trust and thus provides the basis for reliance on their judgement.
  - Objectivity – Internal audit and counter fraud staff exhibit the highest levels of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined, and make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
  - Confidentiality – Internal audit and counter fraud staff respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
  - Competency – Internal audit and counter fraud staff apply the knowledge, skills and experience needed in the performance of their roles and responsibilities.

### **Rules of Conduct**

- 13.5 The rules of conduct set out below provide the ethical framework for the practice of internal audit and counter fraud, and describe behaviour norms expected of staff working in the Audit and Counter Fraud Service. The rules are an aid to interpreting the principles and values into practical applications, and are intended to guide the conduct of all those working in the service.
- Internal audit and counter fraud staff shall perform their work with honesty,

diligence and responsibility.

- Internal audit and counter fraud staff shall work in a manner that promotes co-operation and good relations with other officers and parties within both councils and externally.
- Internal audit and counter fraud staff shall establish an environment of diligence, trust and confidence that provides the basis for reliance on all activities carried out by individual auditors and the Internal Audit Service.
- Internal audit and counter fraud staff shall observe the law, and make disclosures expected by the law and the profession of internal auditing and counter fraud.
- Internal audit and counter fraud staff shall not knowingly be a party to any illegal or improper activity, or engage in acts or activities that are discreditable to their profession or the councils.
- Internal audit and counter fraud staff shall respect and contribute to the legitimate and ethical objectives of the councils.
- Internal audit and counter fraud staff shall maintain both actual and perceived political neutrality when dealing with activities involving elected Councillors, including members of the Board.
- Internal audit and counter fraud staff shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with those of the councils.
- Internal audit and counter fraud staff shall not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties that may impair or be presumed to impair their professional judgement.
- Internal audit and counter fraud staff shall disclose all material facts known to them that, if not disclosed, may distort the reporting of matters under review or investigation.
- Internal audit and counter fraud staff shall engage only in those services for which they have the necessary knowledge, skills and experience.
- Internal audit and counter fraud staff shall perform internal audit services in accordance with the PSIAS and Code of Practice.
- Internal audit and counter fraud staff shall continually improve their proficiency, effectiveness and quality of their services.
- Internal audit and counter fraud staff shall use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions.
- Internal audit and counter fraud staff shall remain alert to the possibility of intentional fraud or corruption, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest.

- Internal audit and counter fraud staff shall be prudent in the use and protection of information acquired in the course of their duties. They shall not use information for any personal gain nor in any manner that would be contrary to law or detrimental to the ethical objectives of the councils.
- Internal audit and counter fraud staff shall remain independent within the councils and maintain an attitude of mind characterised by integrity and an objective approach to work. They shall not normally become part of any line management function to a degree where if they are not present the function becomes affected.
- Internal audit and counter fraud staff will advise the HACF of any situation where a conflict of interest has arisen or could arise in performing their duties and responsibilities, or of any instance of non compliance with the standards set out in the Charter for Internal Audit and Counter Fraud.
- The HACF will advise the DCE and the respective Board of any situation where a conflict of interest has arisen or could arise in performing his duties and responsibilities, or of any instance of non compliance with the standards set out in the Charter for Internal Audit and Counter Fraud.
- The HACF will ensure that the work of the Audit and Counter Fraud Service is planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective use of audit resources.

## Appendix B

### Table of abbreviations

AGS – Annual Governance Statement  
BCP – Business Continuity Planning  
BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward  
CIIA – Chartered Institute of Internal Auditors  
CIPFA – Chartered institute of Public Finance and Accounting  
CMT – Corporate Management Team  
CTRS – Council Tax Reduction Scheme  
DCLG – Department for Communities and Local Government  
DFGs – Disabled Facilities Grants  
DWP – Department of Work and Pensions  
EBC – Eastbourne Borough Council  
ESFOG – East Sussex Fraud Officers Group  
HACF – Head of Audit and Counter Fraud  
HB – Housing Benefit  
HRA – Housing Revenue Account. Refers to Council owned housing  
ISO – International Organisation for Standardisation  
IT – Information Technology  
JTP – Joint Transformation Project  
LDC – Lewes District Council  
NFI – National Fraud Initiative  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
QAIP – Quality Assurance and Improvement Programme  
RO – Returning Officer  
RTB – Right to Buy  
SAG - Sussex Audit Group  
SFIS – Single Fraud Investigation Service  
WGA – Whole of Government Accounts

**Agenda Item No:** 8

**Report Title:** Interim Report on the Council's Systems of Internal Control 2017/18

**Report To:** Audit and Standards Committee      **Date:** 22 January 2018

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

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**Purpose of Report:**

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first nine months of 2017/18, and to summarise the work on which this opinion is based.

**Officers Recommendation(s):**

- 1 To note that the overall standards of internal control were satisfactory during the first nine months of 2017/18 (as shown in Section 3).
- 

**Reasons for Recommendations**

- 1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

**Information**

**2 Background**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 2.2 The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by Head of Audit and Counter



Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

- 2.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report contains an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

### **3 Internal Control Environment at Lewes District Council**

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2016/17 included the opinion of HACF that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the nine months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

### **4 Internal Audit work 2017/18**

- 4.1** Table 1 shows that a total of 381 audit days have been undertaken compared to 465 days planned in the first nine months of the year.

Table 1: Plan audit days compared to actual audit days for April 2017 to December 2017

Audit Area	Actual audit days for the year 2016/17	Plan audit days for the year 2017/18	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	295	220	
Central Systems	83	65	51	
Departmental Systems	86	65	3	
Performance and Management Scrutiny	8	45	24	
Computer Audit	2	5	5	
Management Responsibilities/Unplanned Audits	113	147	78	
<b>Total</b>	<b>639</b>	<b>622</b>	<b>381</b>	<b>465</b>

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

The variance of 84 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017, the additional time being spent on management tasks arising from the JTP, and a period of six weeks

absence for a team member following an operation. It is estimated that the audit days will be closer to plan by the year end, but there will be a shortfall in the time available for audit work.

- 4.2** This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2017. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 4.3 *Main Systems:*** The main work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2016/17. A final report has been issued, together with a separate final report on the issues arising from the review of Non-Domestic Rates (NDR). Preparations for the corresponding work for 2017/18 are underway.
- 4.4** The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed, and the audited claim submitted, during July 2017. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing and the initial additional testing were completed in late September. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2016, but that date was not met because of the extra work that was required. This included further additional testing, reperformance by BDO, and the resolution of queries and challenges. The overall value of the claim was £36.5m. In July 2017, DWP confirmed the results of the audit - there had been an overpayment of subsidy of £6,976, but with a related understatement of £2,367 the net effect was a recovery of £4,609 by DWP.
- 4.5** The work on the HB subsidy claim for 2016/17 is well advanced. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the extra work required, Internal Audit is now working towards the completion of testing and submission of the claim at the end of February 2018.
- 4.6** In order to avoid similar delays in the completion of the audit of the HB subsidy claim for 2017/18, Internal Audit assisted operational managers to engage external consultants Branch and Lee to carry out data analysis of the HB files. Branch and Lee have performed a similar service for EBC for the last two years, and this has been shown to have positive impacts on the records of HB claims ahead of the formal audit. Branch and Lee reported their results on 14 November 2017, and service managers have been revising procedures and carrying out training to address the issues raised in the report.
- 4.7 *Central Systems:*** A final report has been issued for the audit of Ethics, with the work having been done by the Audit Manager at EBC. A final report has been issued for a review of EBC/LDC compliance with aspects of the Regulatory Powers Act (RIPA), and a similar review of compliance with the General Data Protection Regulation (GDPR) at both councils is at the draft report stage. HACF has carried out an independent consultancy review of options for the future management of the

Lewes and Eastbourne Leisure Trusts – the results of the review were reported to the November 2017 meeting of the Committee. HACF is leading on an audit of the Joint Ventures and Council Companies that have been established by both EBC and LDC to help provide services and improve the councils' respective financial positions – the audit is underway.

- 4.8 Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but was put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems – the audit has now restarted and is being carried out by the team's two Audit Managers as part of the shared service arrangements. Initial discussions have been held with client managers on the planned audit of the procedures for managing the Housing Register – a start date has yet to be agreed.
- 4.9 Performance and Management Scrutiny:** The initial work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2017. Recent work has included assessing the impact of the JTP on the client liaison arrangements and audit planning procedures.
- 4.10 Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.11 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** HACF has carried out an independent consultancy review of the options for the future management of strategic procurement at both councils. The results of the review were reported to the November 2017 meeting of the Committee. A review of the Prevent and Protect Strategy – also being carried out by HACF – is at the draft report stage.
- 4.13** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are over 2,000 separate matches detailed across 93 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise involves analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted so far. The Audit and Standards Committee will be kept advised of progress.

## **5 Follow up of Audit Recommendations**

- 5.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2017/18 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

## **6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)**

**6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2016/17 were reported to the June meeting of the Audit and Standards Committee. The results enabled the HACF to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

## **7 Review of 2017/18 Audit Plan**

**7.1** As part of the report to the March 2017 meeting of the Committee that detailed the Annual Audit Plan, HACF advised that there would be a nine month review of the Audit Plan for 2017/18 to assess whether any significant changes are necessary.

**7.2** That review has taken place and the results of the review are now presented to the Committee. The review takes account of a range of issues, in particular the Joint Transformation Programme, the impact of the significant extra work on the Benefits subsidy claim with BDO, the time between the retirement of the Senior Auditor and the arrival of the replacement, and the extra audit days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2017/18, and there has been a need to re-assign some tasks.

**7.3** HACF advises that the significant aspects of the annual audit plan will be covered. The exceptions are:

- The audit of Legal Services (in Central Systems) will be scheduled into the Annual Plan for 2018/19.
- The planned audits of Members Allowances and Expenses, and Licensing (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

Other audits in the programme for 2017/18 that are planned or underway will continue to a normal conclusion.

## **8 Combatting Fraud and Corruption**

### **Local initiatives**

**8.1** The Counter Fraud Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.

**8.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate counter fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at EBC with input from ESFOG partners. Recent Hub activities have included a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at EBC and LDC will use a shared web link to receive these reports. The Hub is working on the development of data sharing arrangements that will facilitate exercises to combat fraud on issues that cross council boundaries, for example NDR (see 8.6 below).

## **Counter Fraud Team**

- 8.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 15 cases of suspected abandonment and/or subletting under investigation, plus one of suspected housing application fraud. Five properties have been returned to stock after cases of abandonment. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property. Three cases of suspected RTB fraud are being investigated, and 19 RTB applications have been withdrawn since April 2017 after intervention by the team. The team will assess the withdrawn applications to determine whether the cases indicate potential fraud.
- 8.4** Recent months have seen a number of case referrals that have required extensive liaison with a range of Council services and external agencies to protect residents and prevent fraud. The team will be working further with front line staff to help in recognising possible issues such as attempted identity fraud.
- 8.5** A meeting has been held with managers in Homes First as the next stage in the development of a standard approach to combatting abandonment and subletting across the property portfolios of both EBC and LDC. The first step in this standardisation process was the introduction of a consistent method of checking RTB applications for both EBC and LDC.
- 8.6** NDR is a development priority for the shared service, with the aim to have a coordinated approach to counter business rates fraud across the county via a methodology developed with Hub partners.
- 8.7** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with Counter Fraud colleagues at EBC, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2017, there have been 24 referrals to SFIS, and 67 information requests have been actioned.

## **9 Risk Management**

- 9.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 9.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of

controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.

- 9.3** The Annual Report on Risk Management will be presented to the March 2018 meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. In addition to providing an assessment of strategic risks facing the Council, the report will include the results of a review of the risk management framework.
- 9.4** In response to reductions in Government funding for local authorities, the Council has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 9.5** The General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m, from £13.2m to £11.0m by 2020/21. The savings target for 2017/18 is £0.6m, half of which is to come from the continuing Joint Transformation Programme (JTP) with EBC. This target is expected to be achieved although the realization of some of the JTP saving is likely to be deferred, reflecting the timing of key phases of the programme.
- 9.6** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA.

## **10 System of management assurance**

- 10.1** The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30 May 2017 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first nine months of the financial year to change these assessments.

## **11 Corporate governance**

- 11.1** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2017 was presented to the June 2017 meeting of the Committee – a version of that AGS with minor amendments was issued with the financial statements for 2016/17.

## **12 External assurance**

- 12.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its



services. The Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

**12.2** Annual Audit Letter for 2016/17 (October 2017) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the November 2017 meeting of the Committee. The report confirms the interim results that were included in the Audit Completion Report that was presented to the September 2017 meeting of the Committee. The key issues were:

- BDO issued an unmodified true and fair opinion on the financial statements for the year ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no material impact on the opinion on the financial statements.
- BDO did not find any significant deficiencies in internal controls.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from the audit.
- BDO issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO noted that, whilst there is a funding gap in the Medium Term Financial Strategy (MTFS) the Council has appropriate arrangements to remain financially sustainable over a period of the MTFS. All of the required savings for 2017/18 have been identified.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement - the relevant section of the statement was submitted in advance of the statutory deadline.
- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.
- The BDO review of grant claims and returns for the year ended 31 March 2017 is in progress, and the results will be reported on completion of this work.

### **13 Future external audit arrangements**

**13.1** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.

**13.2** The Council has opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has responded to the consultation to confirm its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.

**13.3** BDO will carry out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018.

## **14 Financial Appraisal**

**14.1** There are no additional financial implications from this report.

## **15 Sustainability Implications**

**15.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

## **16 Risk Management Implications**

**16.1** If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

## **17 Legal Implications**

**17.1** There are no legal implications arising from this report.

## **18 Equality Screening**

**18.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

## **19 Background Papers**

[2017/18 Annual Audit Plan](#)

## **20 Appendices**

**20.1** Appendix A1 - Statement of Internal Audit work and key issues.

**20.2** Appendix A2 - Table of abbreviations.

**20.3** There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.



## **APPENDIX A1**

### **Statement of Internal Audit work and key issues**

#### **Audit Report: Ethics**

**Date of issue: 4 December 2017**

#### **Overall opinion:**

From the audit work carried out during this review Internal Audit has obtained partial assurance that the Council has an adequate framework of policies and procedures governing ethical standards.

The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review. In many respects the framework is operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. For example, the Constitution includes appropriate codes of conduct for Councillors and Officers, is available to all staff and Councillors, and is aligned to national standards. Guidance is available to Councillors and staff on their responsibilities and duties, and guidance on the range of training available is on Infolink. The Council includes ethical risks within its standard risk management methodology. As a result, there is evidence of the consideration and mitigation of ethical risks, with high visibility given to governance and reputational risks in the Strategic Risk Register.

However, there are gaps in the control processes which weaken the system, and there is a need to introduce additional controls (or improve compliance with existing controls) to reduce the risk to the Council. The report contains seven recommendations.

#### **Main issues**

Councillors are required to complete declarations of interest, and the audit noted that all Councillors had submitted a current declaration. However, Internal Audit concluded that the declarations do not represent a complete or accurate representation of Councillors' interests, with insufficient transparency for some of the property holdings and employments in particular. Councillors are responsible for ensuring the adequacy of their declarations, but it is not clear that there are adequate means to ensure that Councillors comply with the requirements of the Localism Act 2011. The result is a significant reputational risk for the Councillors and the Council. Councillors are to be reminded that accurate and complete declarations of interests are required under the Localism Act, and Democratic Services will undertake checks to identify any obvious errors or inconsistencies before the declarations are uploaded onto the Council's website.

The hospitality register for officers contains a number of reported items. With the merger of services at Lewes District Council and Eastbourne Borough Council it would appear reasonable to apply the same limit (£25) for the recording of gifts and hospitality by officers at both authorities.

The comparative absence of hospitality forms from Councillors may indicate that these are not routinely completed, and that there is scope to remind Councillors of the importance of recording gifts and hospitality valued at more than £50.

The audit examined the ways in which the Council publicises its policies and procedures and, in the main, the situation was found to be satisfactory. However, in a number of areas, including the Complaints and Grievance policies, it was not evident that the policies are soundly based or that they achieve the stated aims. None of the policies show a date or the name/title of the person responsible for their upkeep, and therefore it is not possible to know how current these policies are. In the case of the Complaints Policy, the reporting of complaints as part of the corporate governance arrangements is not accurate or complete. A project to introduce effective complaints procedures is underway.

The audit noted that the previous form of staff surveys have not been carried out since 2015. However, there has been extensive consultation on the staffing and organisational changes arising from the Joint Transformation Programme (JTP).

## **APPENDIX A2**

### **Table of abbreviations**

AGS – Annual Governance Statement  
BCP – Business Continuity Planning  
BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward  
CIPFA – Chartered institute of Public Finance and Accounting  
CMT – Corporate Management Team  
CTRS – Council Tax Reduction Scheme  
DCLG – Department for Communities and Local Government  
DFGs – Disabled Facilities Grants  
DWP – Department of Work and Pensions  
EBC – Eastbourne Borough Council  
ESFOG – East Sussex Fraud Officers Group  
HACF – Head of Audit and Counter Fraud  
HB – Housing Benefit  
HRA – Housing Revenue Account. Refers to Council owned housing  
ISO – International Organisation for Standardisation  
IT – Information Technology  
JTP – Joint Transformation Project  
LATC – Local Authority Trading Company  
LDC – Lewes District Council  
NDR – Non Domestic Rates  
NFI – National Fraud Initiative  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
PSAA - Public Sector Audit Appointments  
QAIP – Quality Assurance and Improvement Programme  
RO – Returning Officer  
RTB – Right to Buy  
SFIS – Single Fraud Investigation Service  
WGA – Whole of Government Accounts

**Agenda Item No:** 9  
**Report Title:** Treasury Management  
**Report To:** Audit and Standards Committee   **Date:** 22 January 2018  
**Ward(s) Affected:** All  
**Report By:** Alan Osborne, Deputy Chief Executive  
**Contact Officer(s)-**

**Name(s):** Stephen Jump  
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**Tel No(s):** 01273 085257

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**Purpose of Report:**

To present details of recent Treasury Management activity.

**Officers Recommendation:**

1. To confirm to Cabinet that Treasury Management activity between 1 November and 31 December 2017 has been in accordance with the approved Treasury Strategy for that period.
- 

**Reasons for Recommendations**

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

**2 Treasury Management Activity**

2.1 The timetable for reporting Treasury Management activity in 2017/2018 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
22 January 2018	1 November to 31 December 2017
19 March 2018	1 January to 28 February 2018

## 2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 2017 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria. The minimum rating required for deposits made after 1 April 2017 is long term BBB+ (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
237017	Thurrock Borough Council	10/11/17	12/02/18	94	3,000,000	0.45	*
237317	Nationwide Building Society	15/12/17	15/03/18	90	1,000,000	0.37	A+
237417	Nationwide Building Society	15/12/17	16/04/18	122	1,000,000	0.39	A+
237617	The Highland Council	18/12/17	19/02/18	63	1,000,000	0.35	*
237717	Coventry Building Society	19/12/17	19/02/18	62	2,000,000	0.34	A
237817	Debt Management Office	19/12/17	19/01/18	31	2,000,000	0.25	*
					<u>10,000,000</u>		

\*UK Government body and therefore not subject to credit rating

## 2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 November 2017, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £20m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
236817	Debt Management Office	02/11/17	06/11/17	04	2,000,000	0.10	*
236917	Debt Management Office	06/11/17	13/11/17	07	2,000,000	0.25	*
237117	Debt Management Office	15/11/17	20/11/17	05	3,000,000	0.25	*
235917	Eastbourne Borough Council	29/08/17	30/11/17	93	3,000,000	0.26	*
236217	Eastbourne Borough Council	08/09/17	08/12/17	91	4,000,000	0.25	*
237217	Debt Management Office	08/12/17	19/12/17	11	5,000,000	0.25	*
237517	Debt Management Office	15/12/17	20/12/17	05	1,000,000	0.25	*
	<b>Total</b>				<u>20,000,000</u>		

\*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 November to 31 December 2017 was 0.34%. The average rate of interest on deposits made during the period was 0.37%. The Bank of England's official Bank Rate was increased from 0.25% to 0.50% on 2 November 2017 and has remained unchanged since.

## 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.37m generating interest of approximately £1,250.

	Balance at 31 Dec '17 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	Nil	1,368	0.15%
Lloyds Bank Corporate Account	639	999	0.40%

## 2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Dec '17 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	2,500	2,088	0.42%
Deutsche Managed Sterling Fund	3,000	2,590	0.35%

## 2.6 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 December 2017 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
<b>Held at 31 December 2017</b>					
UK Treasury Bill 0%	23 Jan 18		23 Oct 17	1,000	0.358
UK Treasury Bill 0%	25 Jan 18		23 Oct 17	1,000	0.347
				2,000	
<b>Matured during the period</b>					
UK Treasury Bill 0%	11 Dec 17	✓	13 Nov 17	1,000	0.347
UK Treasury Bill 0%	18 Dec 17	✓	20 Nov 17	1,000	0.371
UK Treasury Bill 0%	18 Dec 17	✓	20 Nov 17	1,000	0.371
UK Treasury Bill 0%	18 Dec 17	✓	20 Nov 17	1,000	0.383
				4,000	

## 2.7 Secured Investments

There were no secured investments at 31 December 2017.

## 2.8 Tradeable Investments

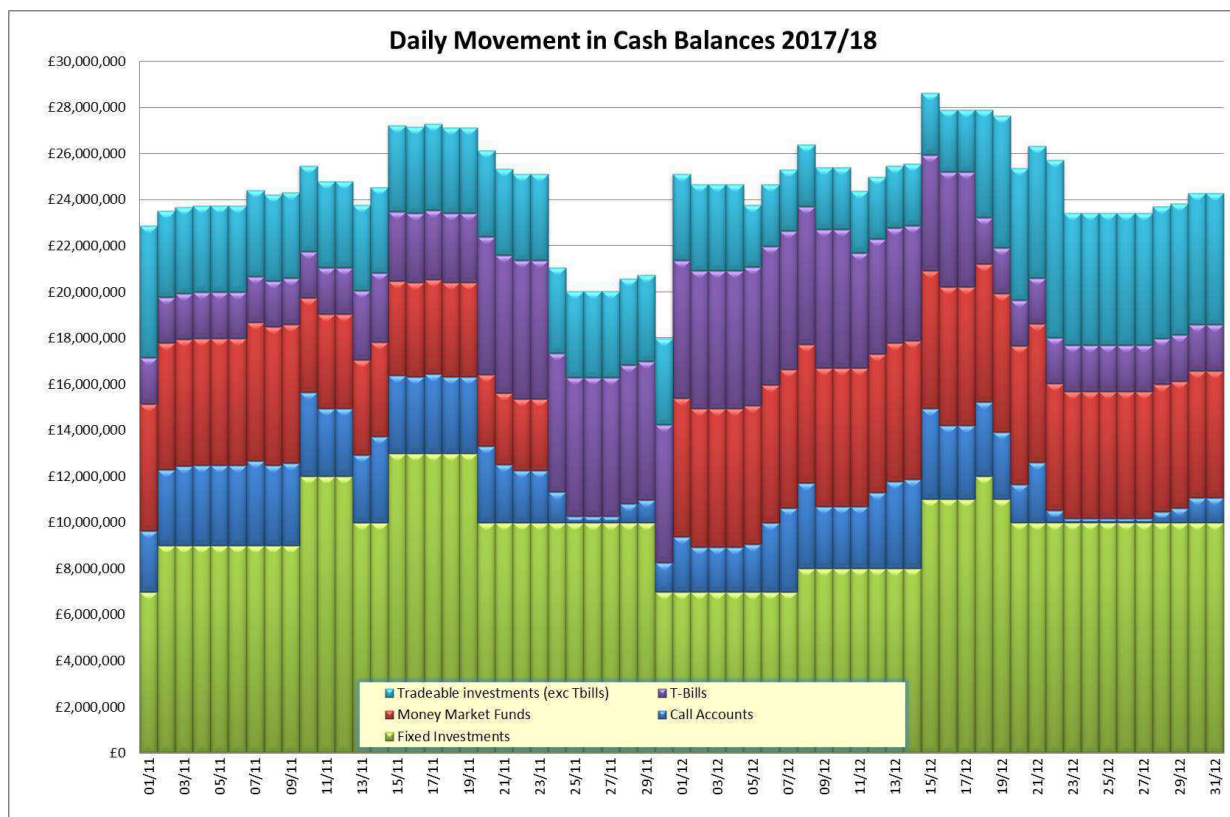
The table below shows the Tradeable Investments held at 31 December 2017.

Ref	Counterparty	Type	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
<b>Held at 31 December 2017</b>								
XS1015890210	Daimler AG	FB	14 Sep 17	16 Jul 18	305	650,000	0.690	A-
XS1015890210	Daimler AG	FB	04 Oct 17	16 Jul 18	285	1,000,000	0.805	A-
GB00BDXFTR27	Nordea AB	CD	25 Oct 17	25 Apr 18	182	1,000,000	0.440	AA-
GB00BDXF3B48	Danske Bank	CD	18 Dec 17	05 Mar 18	77	2,000,000	0.340	A
XS0739933421	BMW Finance NV	FB	19 Dec 17	14 Dec 18	360	<u>1,000,000</u>	0.691	A+
						<u>5,650,000</u>		
<b>Matured in Period</b>								
XS0432619913	Vodafone Group plc	FB	19 Oct 17	05 Dec 17	47	1,000,000	0.450	BBB+

FB – Fixed Bond CD – Certificate of Deposit

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 November to 31 December 2017. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



## 2.10 Borrowing

Temporary borrowings made for cash-flow management purposes during the period are shown below.

Ref	Counterparty	Date From	Date To	Days	Principal £	Rate %
<b>Borrowings at 31 December 2017</b>						
Total					Nil	
<b>Borrowings made and repaid in period</b>						
46317	Newport City Council	23 Nov 17	30 Nov 17	7	1,000,000	0.300
46417	Thurrock Borough Council	27 Nov 17	30 Nov 17	3	2,500,000	0.400
Total					3,500,000	

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

### Financial Implications

3 All relevant implications are referred to in the above paragraphs.

### Risk Management Implications

4 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

### Equality Screening

5 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

### Legal Implications

6 None arising from this report.

### Background Papers

Treasury Strategy Statement 2017/2018



**Agenda Item No:** 10  
**Report Title:** Annual Treasury Management Strategy Statement and Investment Strategy 2018/2019 to 2020/2021  
**Report To:** Audit and Standards Committee Date: 22 January 2018  
**Ward(s) Affected:** All  
**Report By:** Alan Osborne, Deputy Chief Executive  
**Contact Officer(s)-**

**Name(s):** Stephen Jump  
**Post Title(s):** Deputy Head of Finance  
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**Tel No(s):** 01273 085257

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**Purpose of Report:**

**To present the draft Treasury Management Strategy Statement and Investment Strategy 2018/2019 to 2020/2021.**

**Officers Recommendation:**

1. To receive the draft Treasury Management Statement and Investment Strategy 2018/2019 to 2020/2021 and make comments to Cabinet as the Committee sees fit.
2. To note the contents of this report.

**Reasons for Recommendations**

- 1 The Council has adopted the CIPFA Code of Practice on Treasury Management. In accordance with the Code of Practice, the Cabinet approves an updated Annual Treasury Strategy Statement before the start of each financial year. This includes an Investment Strategy for the year ahead (which Government guidance notes should be adopted by full Council) as well as 'Prudential Indicators' which are required to be set in order to comply with the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code).
- 2 It is appropriate for the Audit and Standards Committee to review and comment on the draft Strategy before it is approved by Cabinet as part of the overall budget cycle, rather than to carry out this function after the Strategy has been formally adopted.

## Information

### 1 Purpose and context of the Strategy Statement

- 1.1** The draft Strategy Statement is attached at Appendix 1. It sets out the background to the Council's treasury management activity both in terms of the wider economy and the Council's own current and projected financial position. It sets out the approach which will be taken to borrowing and the investment of cash balances. It explains the risks which are inherent in treasury management and how these are to be mitigated. The Strategy Statement specifies the Prudential Indicators which the Council is to set in order to meet the requirements of the Prudential Code; contains an 'MRP Statement' which defines the approach that the Council will take to make prudent provision for debt redemption; and establishes the policy for the separate management of General Fund and Housing Revenue Account borrowing.
- 1.2** The content of the draft Strategy Statement follows the requirements of CIPFA's Code of Practice and has been prepared with the support of Arlingclose, the Council's Treasury advisers. In late December, CIPFA published new versions of its Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (TM Code) and The Prudential Code for Capital Finance in Local Authorities (Prudential Code) in late December 2017. The publication of new Codes in December could be considered as unhelpful timing by CIPFA. However the new TM Code does not recommend any changes to the format or content of the Strategy Statement.
- 1.3** In its consultation on changes to the Code, CIPFA proposed changes to the treasury management Prudential Indicators. However, these are contained in the local authority sector-specific guidance notes, not the TM Code itself (which applies to the wider public sector). Updated local authority guidance notes will be published later in 2018.
- 1.4** Where a local authority produces a Capital Strategy (see below), the TM Code allows the Treasury Management Strategy Statement to be approved by a committee instead of full council. However, Government guidance across the UK requires full council to approve the Investment Strategy, so this will have little effect until Government guidance is changed.
- 1.5** The updated Prudential Code includes a new requirement for local authorities to produce a Capital Strategy, which is to be a summary document approved by full council (or equivalent) covering capital expenditure and financing, treasury management and non-treasury investments. There is no requirement in the Code for this to be an annual document, nor for it to be approved before the start of the financial year. CIPFA recognises that authorities may require a lead-in period to create a Capital Strategy and that this requirement may not be able to be fully implemented until 2019/2020.

- 1.6** In a separate consultation (which closed at the end of December 2017) on changes to the Guidance on Local Authority Investments applicable to authorities in England, the former Department for Communities and Local Government proposed certain items be included within the Capital Strategy. At the time of writing this report, the Government has not reported on the outcome of the consultation or made changes to the Guidance. In the light of this, the Council will not be asked to approve a Capital Strategy before the start of 2018/2019.
- 1.7** It is important to note that values shown in the draft Strategy Statement (eg capital expenditure, use of reserves, capital financing requirement) are best estimates at the time of preparing the report, and may be revised when draft budget papers are finalised for consideration by Cabinet at its February meeting. Any revisions are expected to be immaterial, with no bearing on the Strategy proposed.
- 1.8** The Council continues to enhance its commercial property portfolio and seek opportunities to develop existing land-holdings, generating additional revenue income streams. The capital programme also includes provision to make loans to Lewes Housing Investment Company and Aspiration Homes (which are wholly-owned and part-owned by the Council respectively). This investment of financial resources is outside the remit of (though has an impact on) this Strategy which has a remit of treasury management activity only.

## **2 2018/2019 Strategy Statement in context**

- 2.1** Given the risk and continued low returns from short-term unsecured bank investments, the Strategy enables the Council to continue diversification into more secure and/or higher yielding asset classes during 2018/2019. Diversification is of importance in the context of the reduction in Council reserves and balances as they are called on to support the Council's organisational change programme. With diminishing reserves, the impact of a single counterparty default would be greater.
- 2.2** Although the Council will continue to utilise the cash held in our reserves to minimise the amount borrowed to fund capital expenditure (rather than invest that money), that is unlikely to be sufficient to meet all of our funding needs. Further borrowing, either short term or long-term, will be required.

## **3 Proposed Changes to Investment Strategy**

- 3.1** The minimum credit rating for investments permissible under the current Strategy is long-term 'BBB+'. Arlingclose have changed their approach for 2018/2019 and now recommend a minimum credit rating of 'A-', one level higher. It is proposed to move to that level for 2018/2019.
- 3.2** The current Strategy limits the total of long-term investments (ie more than one year) to £3m. Arlingclose advise that clients should seek longer term-investment opportunities, which brings the potential for higher returns, where

funds are known to be available. In view of the funds required to support the capital programme, it is proposed to reduce the limit for the total of long-term investments (ie more than one year) to £2m.

**3.3** Appendix C (page 21) of the Strategy sets out approved counterparty types and limits for 2018/2019 in detail. A limit of £2m per counterparty will apply, with the exception of investments with Government bodies (unlimited) and pooled funds, for example Money Market Funds, for which the individual limit will be £3m. With the exception of the change to the credit rating criteria referred to above, all counterparty types and investment durations remain unchanged from the current Strategy.

**3.4** It should be noted that the presence of a counterparty type on the list at Appendix C does not necessarily mean that it will be used by the Council.

## **4 Borrowing Strategy**

**4.1** The current approach of 'internal borrowing' (ie using cash held as balances, reserves and working capital as an alternative to long-term borrowing) as a means of funding capital expenditure will continue in 2018/2019. As this is likely to be insufficient to meet all of the capital programme funding needs, additional borrowing is expected to be required. The need to borrow can be met either by long-term fixed rates loans or short-term borrowing (which is likely to be available at lower rates of interest than long-term loans), or a combination of the two. Arlingclose will assist the Council in determining the most appropriate the option.

**4.2** The Council will remain open to the possibility of debt rescheduling (ie replacing an existing loan with a new loan or loans, or repaying a loan without replacement) where this is expected to lead to an overall saving or reduction in risk.

## **5 Provision for debt repayment**

**5.1** Local authorities are required to make prudent provision for the repayment of debt, and set the Policy for doing so each year. A local authority is required to have regard to statutory guidance on the 'Minimum Revenue Provision' when setting its Policy.

**5.2** Government consultation on changes to the statutory guidance closed at the end of December 2017 but the outcome is unknown at the time of writing this report. For this reason, the proposed Policy (set out in Section 13 of the Strategy) is unchanged from 2017/2018. Under the Policy, no provision for the repayment of debt will be made in respect of expenditure incurred for development or asset realisation purposes (eg associated with the North Street Development) or capital expenditure on commercial investment property.

## **6 Prudential Indicators**

A number of the Prudential Indicators relate to elements of the Capital Programme and General Fund and Housing Revenue Account budgets which are to be considered by Cabinet in February 2018 as a full 'budget package'. It is not possible to include future values for these Prudential Indicators at this stage, and they are outside the scope of the Audit and Standards Committee's review. Appendix B to the Strategy document has, therefore, been excluded from these papers.

**7 Financial Implications** - All relevant implications are referred to in the Draft Strategy Statement.

**8 Legal Implications** - The legislative context is set out in the Draft Strategy Statement.

**9 Risk Management Implications** - The risk management implications associated with this activity are explained in the Draft Strategy Statement.

**10 Equality Screening** - The contents of this report is technical in nature, relating to the management of the Council's investments and borrowing. As such, Equality Screening was not required.

**Appendix 1** – Draft Treasury Management Statement and Investment Strategy  
2018/2019 to 2020/2021

**Background Papers** – Treasury Strategy Statement 2017/2018

# Lewes District Council

## Treasury Management Strategy Statement and Investment Strategy 2018/19 to 2020/2021

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## 1. Executive Summary

- 1.1 Borrowing – the Council can borrow to finance capital expenditure in a similar way to an individual taking out a mortgage to buy a house. At 31 March 2018, total cumulative capital expenditure which will need to be funded amounts to £81.6m. The actual long term-borrowing (the mortgage) that we currently have is only £56.7m. Although we are using the cash held in our reserves to make up the difference (rather than invest that money), that is likely to be insufficient to meet all of our funding needs and further borrowing, either short term or long-term, will be required (See Sections 6 and 7 for the details).
- 1.2 Debt rescheduling – The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. (See Section 8 for the details).
- 1.3 Accounting for debt – the Council will adopt a two-Pool approach in order to manage and account for the debt of the General Fund/Housing Revenue Account. (See Section 9 for the details).
- 1.4 Investing – at any given time, the Council has varying amounts of cash consisting of reserves and balances, as well as working capital, which must be held securely. The security of our investments is our highest priority. We have defined the types of investment that we will make and the criteria that those organisations with which we will deal must meet. (See Sections 10 and 11 for the details).
- 1.5 Providing for the repayment of debt – we will continue to make annual provisions to repay our long term borrowing. (See Section 13 for the details).
- 1.6 Reporting – we will closely monitor our Treasury Management activity and make reports to every meeting of the Council’s Audit and Standards Committee, with quarterly reports to Cabinet. (See Section 14 for the details).

## 2. Treasury Management Defined

- 2.1 The Council defines its Treasury Management activities as:  
*“the management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 2.2 Treasury Management is not undertaken in isolation. The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management and ensuring that performance is monitored and reported. All Treasury Management activity takes place within the context of effective risk management.



### **3. Scope of the Treasury Management Strategy Statement**

- 3.1 This Strategy Statement sets out the Council's approach to financing (borrowing) and investment for the financial year but also sets the context for the following two years.
- 3.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in Public Services (the "TM Code"). This requires local authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of the financial year.
- 3.3 The Department for Communities and Local Government. (DCLG) issued 'Guidance on Local Authority Investments' in 2010 that requires each local authority to approve an investment strategy before the start of each financial year. This Strategy Statement incorporates that formal Investment Strategy. Government consultation on proposed changes to the Guidance on Local Authority Investments closed at the end of December 2017 and at the time of drafting this Strategy Statement, it is not known whether any changes in the Guidance will be implemented or when. The Strategy Statement will be updated during the course of the year if changes in the Guidance have a material impact.
- 3.4 The Strategy sets out the context to Treasury Management in terms of the Council's financial resources as measured in its Balance Sheet and external factors, in particular the outlook for interest rates. It considers how the Revenue Budget and Capital Programme will impact on the Balance Sheet position.
- 3.5 In accordance with the DCLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

### **4. Approach to Risk**

- 4.1 The Council has borrowed and expects to invest substantial sums of money and is therefore exposed to financial risks including the revenue effect of changing interest rates and, in the extreme, the loss of invested funds.
- 4.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. No Treasury Management activity is without risk. The main risks to the Council's Treasury activities are:
  - Credit and Counterparty Risk (security of investments)
  - Liquidity Risk (adequacy of cash resources)

- Market or Interest Rate Risk (exposure to fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk (compliance with statutory powers and regulatory requirements)
- Fraud, Error and Corruption and Contingency Management (maintenance of sound systems and procedures)

## 5. External Context

### 5.1 Economic Background

The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

### 5.2 Credit Outlook

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

### 5.3 Outlook for Interest Rates

The detailed economic interest rate outlook provided by the Council's Treasury advisor, Arlingclose Ltd, is attached at Appendix A. The Arlingclose central case is for Bank Rate to remain at 0.50% during 2018/19, following the rise from its historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields (which are indicators of borrowing rates) to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance does bring a risk of increases.

5.4 Interest rates are of fundamental importance to the Council's Treasury Management operation. The ideal scenario would be to make short-duration investments if interest rates are low and are expected to rise significantly in the near future and to invest for longer periods if interest rates are considered to be close to their peak. In terms of borrowing, it is preferable to borrow short-term when interest rates are high and expected to fall and to undertake long-term borrowing when interest rates are low and expected to rise.

5.5 The 2018/2019 estimate for external interest payments associated with the current loan portfolio (ie before any new borrowing required to fund the capital programme in full) is £1.72m (£1.73m in 2017/2018), which reflects the stability of the loan portfolio at fixed interest rates. The estimate for external interest receipts (assuming that surplus funds are retained at their 2017/2018 levels) is £0.1m, unchanged from 2017/2018

5.6 The Council's need to borrow and its ability to invest are interrelated, as explained elsewhere in this Strategy Statement. The Council will reappraise its strategy in both of these areas from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates. Any such changes will require the prior approval of Cabinet.

## 6. The Need to Borrow Long Term

6.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap was fixed at £72.931m. In

2014/2015 local authorities were able to bid for increases in their housing debt caps in order to enable specific projects. A bid from this Council was successful and this Council's debt cap increased to a maximum of £75.248m to enable the construction of new Council-owned homes on 7 specified former garage sites.

In November 2017, the Government announced that councils in areas of high housing demand would be able to apply for increases in the debt cap. At the time of drafting this Strategy no further information has been released, but this Council is not expected to meet the eligibility requirements.

- 6.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. In recent years, the Council's strategy has been to maintain borrowing and investments below their underlying levels, known as internal borrowing, and this remains the Strategy for 2018/2019. However, if the spending plans set out in the capital programme are achieved, additional external borrowing will be necessary.
- 6.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties..
- 6.4 The CFR is calculated each year in accordance with a statutory formula. As noted above, the level of CFR increases each year by the amount of capital expenditure which is yet to be financed and is reduced by the amount that the Council sets aside for the repayment of borrowing. This is illustrated in the table overleaf. Amounts from 2017/2018 onwards are indicative. Projected capital expenditure in 2017/2018 and 2018/2019 with a financing requirement includes £20.0m in loan facilities to Lewes Housing investment Company (LHIC) and Aspiration Homes, development projects in Seaford and Newhaven (£2.7m), an allocation for commercial acquisitions or developments (£5.3m) and the North Street Quarter project (£4.0m). All of these will generate new income to support the General Fund budget in future years.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening CFR	71.531	77.042	81.552	105.003	107.758
Capital exp in year	19.239	21.374	32.407	12.515	11.148
Less financed	(10.527)	(15.549)	(7.508)	(8.315)	(6.948)
Less amount set aside for debt repayment	(3.201)	(1.315)	(1.448)	(1.445)	(1.443)
Closing CFR	<b>77.042</b>	<b>81.552</b>	<b>105.003</b>	<b>107.758</b>	<b>110.515</b>

- 6.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
General Fund	11.709	14.556	38.953	42.654	46.357
HRA	65.333	66.996	66.050	65.104	64.158
Total CFR	<b>77.042</b>	<b>81.552</b>	<b>105.003</b>	<b>107.758</b>	<b>110.515</b>

- 6.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use):

	31/3/17 £m	31/3/18 £m	31/3/19 £m	31/3/20 £m	31/3/21 £m
(a) Capital Financing Requirement	77.042	81.552	105.003	107.758	110.515
(b) Actual external borrowing	(56.673)	(56.673)	(56.673)	(56.673)	(56.673)
(c) Use of Balances, Reserves and working capital as alternative to borrowing (a)–(b)	20.369	24.879	48.330	51.085	53.842
(d) Total Balances, Reserves and working capital	28.548	17.789	23.040	25.210	28.580
(e) = (d) – (c) Available to invest (+)/ additional amount to borrow (-)	8.179	(7.090)	(25.290)	(25.875)	(25.262)

- 6.7 The table above (line b) assumes that the current external loan portfolio is unchanged across the period. The potential for and approach to repaying or rescheduling existing loans is explained in Section 8 below.
- 6.8 Line e in the table above indicates that internal borrowing alone is insufficient to cover the Capital Financing Requirement: there is a potential need to borrow an additional £25.290m before 31 March 2019 if the allocations in the capital programme noted in paragraph 6.4 are fully called on. The need to borrow can be met either by long-term fixed rates loans (the Council qualifies for new borrowing at the 'Certainty Rate', 0.20% below the PWLB standard rate) or short-term borrowing (which is likely to be available at lower rates of interest than long-term loans), or a combination of the two. The cost to the General Fund of any new borrowing would be offset by income generated from the project (eg Lewes

Housing Investment Company would pay interest to the Council on all loans advanced to it).

- 6.9 It will be necessary to monitor the position closely as projections of the capital programme, use of reserves, capital receipts generated from the sale of assets and the level of working capital shown in the table above are not certain. The following section explains the approach to borrowing in more depth.

## **7. Borrowing Strategy**

- 7.1 In accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed its highest CFR over the next three years.

The cumulative estimate of the Council's additional long-term borrowing requirement in respect of historic and planned capital expenditure is shown in the table in paragraph 6.6. As explained above, the increases in the CFR are largely the result of investment in commercial property and loans to LHIC and Aspirations Homes which will generate annual rental income streams from which the additional borrowing costs will be met.

- 7.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 7.3 Market conditions, interest rate expectations and counterparty and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. Officers will liaise closely with Arlingclose when deciding the duration or terms of any new borrowing.
- 7.4 Given the challenging revenue position facing the Council's General Fund, the borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. For example, the current rates (January 2018) available to the Council for 2-year and 5-year PWLB maturity loans are 1.4% and 1.69% respectively compared with 0.25% which can be earned on depositing funds with the Government for a month or more.
- 7.5 The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.
- 7.6 The Council's appointed Treasury advisor, Arlingclose, will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums required at long-



term fixed rates in 2018/2019 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. Alternatively, the Authority may arrange forward starting loans during 2018/2019, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. Any decision to borrow will be confirmed with the Cabinet Member for Finance and reported to the next meeting of the Cabinet.

- 7.7 The Council may borrow short-term loans (normally up to one month) to cover unexpected cash flow shortages should they arise.
- 7.8 The approved sources of new long-term and short-term borrowing will be:
- Public Works Loans Board (and any successor body)
  - UK Local Authorities
  - any institution approved for investments (see Section 11) below
  - UK public and private sector pension funds (except East Sussex County Council Pension Fund)
  - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In the event that alternative sources of borrowing are identified in the year, which are considered to be more appropriate in the context of the overall strategy, a report will be made to Cabinet and Council. Arlingclose will assist the Council with the analysis of options.

- 7.9 The Council has previously raised the majority of its long-term borrowing from the PWLB but it will investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.
- 7.10 The Local Government Association established the UK Municipal Bonds Agency plc in 2014 as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for a number of reasons including the fact that there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from this source will therefore be the subject of a separate report to full Council.

## **8. Debt Rescheduling**

- 8.1 At the time of preparing this Strategy, the Council's loan portfolio was as shown in the table overleaf. All of the PWLB loans listed below were taken out in March 2012 in order to finance the payment to the Government needed for the national transition to self-financing for local authority housing. The Barclays loan shown in the table above was taken out in April 2004 with a term of 50 years maturing in April 2054. This loan has now been fixed at an interest rate of 4.5%.



Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.7000	01/03/2024
PWLB	Fixed	5.00	3.3000	01/03/2032
PWLB	Fixed	2.00	3.0500	01/09/2027
PWLB	Fixed	2.00	2.7600	01/09/2024
PWLB	Fixed	4.00	2.9700	01/09/2026
PWLB	Fixed	5.00	3.2800	01/09/2031
PWLB	Fixed	4.00	2.6300	01/09/2023
PWLB	Fixed	5.00	3.4400	01/03/2037
PWLB	Fixed	6.67	3.5000	01/03/2042
PWLB	Fixed	5.00	3.4300	01/09/2036
PWLB	Variable	5.00	0.6200	28/03/2022
PWLB	Fixed	4.00	3.0100	01/03/2027
	Sub-total	51.67		
Barclays	Fixed	5.00	4.5000	06/04/2054
	Total	56.67		

8.2 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to set a formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. Any intended debt rescheduling activity will be confirmed with the Cabinet Member for Finance and reported to the next Cabinet meeting.

## 9. The Housing Revenue Account Share of Treasury Management Costs.

9.1 Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the DCLG. The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their Strategy Statement.

9.2 The Council has adopted a '2 pool' (General Fund and HRA) approach to accounting for long-term loans. All current loans were allocated to the HRA on the introduction of 'self-financing'. Any new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

9.3 At the start of each year, an assessment will be made of the difference between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment). If the resulting cash balance is negative, an 'internal loan' will be advanced from the General Fund (Reserves and Balance) to the HRA

and interest charged at a rate equivalent to a one-year maturity loan from the PWLB at the start of the financial year. This is a reasonable approach and reflects the fact that strategic borrowing decisions will generally be made on an annual basis, as demonstrated in this Strategy. The same approach will be adopted for any new internal borrowing required in the year to support the cost of HRA capital expenditure not anticipated in the initial annual capital programme.

## **10. The Need to Invest**

- 10.1 As shown in the table in paragraph 6.6 the Council currently holds healthy Reserves and Balances (£17.8m projected at 31 March 2018 including working capital eg s106 Developer Contributions and Capital Receipts which will be used to fund the future Capital Programme). In simple terms, Reserves represent amounts of money which have been set aside for use in future years for specific purposes (eg to pay for the replacement of vehicles at the end of their useful life) and Balances are cash which is retained both to ensure that the Council is able to respond effectively if an unforeseen event arises (eg the failure of a major contractor) and also to act as a buffer against unpredicted cash flow movements.
- 10.2 Although the table at paragraph 6.6 indicates that Reserves and Balances will be fully used as an alternative to external long-term borrowing, this is dependent on the allocations in the capital programme being fully utilised and no additional external long-term borrowing being taken. It is reasonable to assume, therefore, that a residual amount will be retained cash in 2018/2019. In addition, the Council's cash flow movements fluctuate on a day to day basis, with cash received exceeding cash paid out at key points over the year. For example, at the start of 2017/2018 £16m was available for investment but the maximum amount invested at any point in the year was £31m. The purpose of the Investment Strategy is to define the conditions under which this 'surplus' cash is to be managed, with the priority being security of the sums invested.
- 10.3 Current DCLG Guidance on Local Government Investments in England requires authorities to set an Annual Investment Strategy. The speculative procedure of borrowing purely in order to invest is unlawful. However, taking on new external loans to reduce the level of internal borrowing is permissible, and, if this takes place, the Council will place importance on the flexibility of its loan portfolio as well as the liquidity of its investments.

## **11. Investment Strategy**

- 11.1 The Council's general policy objective is to invest its surplus funds prudently, striking a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

- 11.2 If the UK enters into a recession in 2018/2019, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 11.3 The Council's investment priorities are:
- highest priority -** security of the invested capital;
  - followed by -** liquidity of the invested capital (this enables the Council to react to changing circumstances)
  - finally -** an optimum yield which is commensurate with security and liquidity.
- 11.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2018/2019. This is especially the case for funds that are identified as being available for longer-term investment. This diversification will represent a continuation of the strategy first implemented in 2016/2017.
- 11.5 The Council may invest its surplus funds with any of the counterparty types identified in Appendix C, subject to the cash limits (per counterparty) and the time limits shown. It is important to note that not all of the types of investment listed above will necessarily be used in 2018/2019, and some have not been used previously. Before any type of investment instrument is used for the first time, the advice of Arlingclose will be sought.
- 11.6 Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 11.7 The Council and its advisors remain vigilant at all times, monitoring signs of credit or market distress that might adversely affect the Council.
- 11.8 Credit ratings are obtained and monitored by Arlingclose who will notify changes in ratings as they occur. Where a counterparty has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made
  - any existing investments that can be recalled or sold at no cost, will be
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

- 11.9 Where a rating agency announces that a rating is on review for possible downgrade (also known as 'rating watch negative') below the approved investment criteria, then only investments that can be withdrawn on the next working day will be made with that counterparty until the outcome of the review is announced. This approach will not apply to 'negative outlooks' which indicate a long-term direction of travel rather than an imminent change of rating.
- 11.10 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 11.11 When deteriorating financial market conditions affect the credit worthiness of all organisations (as happened in 2008 and 2011), this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available for the investment of the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 11.12 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the DCLG Guidance.
- Specified investments are
- denominated in £ sterling
  - due to be repaid within 12 months of arrangement
  - not defined as capital expenditure by legislation
  - invested with the UK Government or local authority or a body or investment scheme of high credit quality'
- 11.13 The Council defines 'high credit quality' organisations and securities as those having a long-term credit rating of A- or higher that are domiciled either in the UK or in a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds 'high credit quality' is defined as those having a credit rating of A- or higher.
- 11.14 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies nor any that are defined as capital expenditure (eg company shares). Non-specified investments will

therefore be limited to long-term investments ie those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition of 'high credit quality'.

Limits on non-specified investments are shown below.

	<b>Cash limit</b>
Total long-term investments	£2m
Total investments rated below A-	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£10m

- 11.15 The Council's revenue reserves available to cover investment losses are forecast to be £7m on 31st March 2018. The maximum that will be lent to any one organisation (other than the UK Government) will be £2m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£3m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker/account
Foreign countries	£3m per country
Registered Providers	£4m in total
Money Market Funds	£10m in total

- 11.16 The Deputy Chief Executive will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Confirmation that investments have been made in accordance with the Strategy will be reported to meetings of the Audit and Standards Committee and Cabinet. Investment returns will be benchmarked quarterly against the average published 7 day LIBID rate.
- 11.17 All of the Council's investments are currently managed in-house and this approach will continue for the duration of this Strategy unless otherwise approved in advance by Cabinet.

- 11.18 The Council uses a spreadsheet model, updated daily, to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.
- 11.19 Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

## **12. The Use of Financial Instruments for the Management of Risks**

- 12.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (eg interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (ie those that are not embedded into a loan or investment).
- 12.2 The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 12.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.



### 13. Providing for Debt Repayment - 2018/19 Minimum Revenue Provision Statement

- 13.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on this MRP has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003. At the time of writing this Statement it is unclear whether the DCLG will be issuing updated guidance for financial years 2018/2019 onwards, following a consultation exercise that closed at the end of December 2017. The Statement below is in accordance with the current guidance.
- 13.2 The four MRP options available are:
- |                             |                               |
|-----------------------------|-------------------------------|
| Option 1: Regulatory Method | Option 2: CFR Method          |
| Option 3: Asset Life Method | Option 4: Depreciation Method |
- 13.3 Options 1 and 2 may be used only for supported non-HRA capital expenditure (ie where the Government supports the cost of financing new borrowing through a recurring grant). Methods of making prudent provision for self financed non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
- 13.4 The MRP Statement will be submitted to Council before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.
- 13.5 The Council’s Policy for making a MRP in 2018/2019 will be:
- *capital expenditure incurred before 1 April 2008*: MRP will be provided at an approximate reduction of 4% in the CFR
  - *capital expenditure which is supported by recurring revenue grants or contributions*: there is no expectation that the Council will incur this type of expenditure in 2018/2019, but if so Option 1 will apply – MRP will be equal to the amount determined in accordance with the former regulations 28 and 29 of the Local Authorities Capital Finance and Accounting (England) Regulations 2003 as if they had not been revoked
  - *capital expenditure incurred for development or asset realisation purposes*: where capital expenditure is incurred in respect of a project which is intended to unlock future capital receipts (eg the refurbishment of a building ahead of its sale, the acquisition of sites associated with the North Street Development) no MRP will be provided, the expectation being that the increase in CFR will subsequently be offset by use of the eventual receipts



- *capital expenditure on commercial investment property*: where capital expenditure is incurred on the acquisition, construction or improvement of land and buildings with the intention of generating a recurring income stream, no MRP will be provided. Any such projects will have been evaluated prior to commencement to ensure that it provides a positive annual long-term return after allowing for interest costs and notional repayment of principal
- *any other capital expenditure*: Option 3 will apply – MRP will be calculated according to the asset life method and will be made in equal instalments over the life of the asset.

13.6 The Housing Revenue Account 30-year Business Plan includes the principle that the long-term borrowing required on the move to self-financing will be repaid at the earliest opportunity. However, there is no requirement to do so and become 'debt-free'. In order to maintain flexibility, resources will be set aside in the HRA balance for potential debt repayment, but formal Revenue Provisions (which cannot be reversed) will not be made other than to reduce internal borrowing from the General Fund.

#### 14. Reporting on the Treasury Outturn

The Deputy Chief Executive will report on Treasury Management activity/performance as follows:

Report to/Coverage	Frequency:
<b>Council</b>	
Treasury Management Strategy/Annual Investment Strategy/MRP Policy	Annually before start of the year
Treasury Management Strategy/Annual Investment Strategy/MRP Policy – mid year report	Annually mid year
Treasury Outturn report	Annually after year end and by 30 September
<b>Cabinet</b>	
Receives each of the above reports in advance of Council and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation that Treasury transactions have complied with Strategy and benchmark performance information	As part of Quarterly Financial Performance reports.
<b>Audit and Standards Committee</b>	
Receives each of the above reports in advance of Cabinet (where publication timetable permits) and makes observations as appropriate	In advance of year/mid-year/after year end and by 30 September
Reviews details of Treasury transactions against Strategy and makes observations to Cabinet	Every cycle

#### 15. Training

15.1 The TM Code requires the Deputy Chief Executive, as responsible officer, to ensure that all councillors tasked with Treasury Management responsibilities, including scrutiny of the Treasury Management function, receive appropriate training relevant to their needs and understand fully

their roles and responsibilities. Arlingclose will be asked to continue the briefing programme for Councillors which has been running since 2009.

- 15.2 The training needs of the Council's Treasury Management staff will be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. The Council's contract with Arlingclose includes provision for staff to attend training seminars and workshops.

## **16. Investment Consultants**

- 16.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.
- 16.2 The Council exercised the option to extend this agreement to the end of June 2017 and following discussion with Arlingclose has now opted to maintain the appointment for a further year. The appointment of an investment consultant from July 2018 onwards is expected to be made in conjunction with Eastbourne Borough Council given that a shared finance team (with treasury management responsibility) is being established.

## **17. Publication**

The Annual Treasury Management Statement and Investment Strategy, along with any in-year revisions, can be downloaded from [www.lewes.gov.uk](http://www.lewes.gov.uk) and is also available on request to the Director of Corporate Services, Southover House, Southover Road, Lewes, or by email to [ldcfinance@lewes-eastbourne.gov.uk](mailto:ldcfinance@lewes-eastbourne.gov.uk).

## Appendix A - Arlingclose's Economic and Interest Rate Forecast

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.00	-0.00	-0.00	-0.00	-0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
<b>3-month LIBID rate</b>														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
<b>1-yr LIBID rate</b>														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.26
<b>5-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
<b>10-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
<b>20-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
<b>50-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

### Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

#### Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

## **Appendix B – Prudential Indicators 2018/2019 to 2020/2021 – NOT PART OF AUDIT AND STANDARDS COMMITTEE REVIEW**

### **1. Background:**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme and are considered by Cabinet when the Capital Programme is set. These Indicators are also included below for completeness of reporting.

## Appendix C – Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£2m 4 years	£2m 10 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£2m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 months	£2m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
Pooled funds	£3m per fund				

Further details of the counterparty types shown in the table above are as follows:

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans and bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Operational bank accounts:** In the event that a bank that the Council uses for its operational activity is downgraded, the Council may continue to incur operational exposures (eg through current accounts, collection accounts and merchant acquiring services) with it, provided that its credit rating is no lower than BBB- and it has assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.



## Glossary of Treasury Management Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Bank Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Basis Point	A convenient way of measuring an interest rate (or its movement). It represents 1/100th of a percentage point, ie 100 basis points make up 1%, and 250 basis points are 2.5%. It is easier to talk about 30 basis points than “point three of one per cent”.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Certificate of Deposit	A short-term marketable financial instrument typically issued for periods of less than six months by banks and building societies. Interest can be at a fixed or variable rate.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. CIPFA has responsibility for setting accounting standards for local government.
Counterparty	Institution with which the Council may make an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. The three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.

Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Internal Borrowing	The temporary use of surplus cash which would otherwise be invested, as an alternative to borrowing from the PWLB or a bank in order to meet the cost of capital expenditure.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.