



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 **Telscombe Room, Southover House, Southover Road, Lewes** on **Monday, 30 November 2015** at **10:30** 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.

16/11/2015

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To approve the Minutes of the meeting held on 28 September 2015 (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 Change of Membership of the Audit and Standards Committee**
To note that Councillor S Gauntlett has replaced Councillor B Giles on the Audit and Standards Committee Membership for the remainder of the municipal year 2015/2016
- 7 Interim Report on the Council's Systems of Internal Control 2015/16 (Page 3)**
To receive the Report of the Head of Audit, Fraud and Procurement (Report No. 160/15 herewith)
- 8 Treasury Management (Page 13)**
To consider the Report of the Director of Corporate Services (Report No. 161/15 herewith)
- 9 Annual Report on the Establishment and Maintenance of a Register of Interests 2015-2016 (Page 33)**
To receive the Report of the Monitoring Officer (Report No. 162/15 herewith)
- 10 Date of Next Meeting**
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday 25 January 2015 in the Telscombe Room, Southover House, Southover Road, Lewes commencing at 10.30am

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

Distribution: Councillors M Chartier (Chair), N Enever, S Gauntlett I Linington, A Loraine, R Robertson, A Rowell

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Michaela Frost or Ruby Brittle, at michaela.frost@lewes.gov.uk or ruby.brittle@lewes.gov.uk)

Agenda Item No: 7

Report No: 160/15

Report Title: Interim Report on the Council's Systems of Internal Control 2015/16

Report To: Audit and Standards Committee **Date:** 30 November 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

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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 seven months of 2015/16, 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 seven months of 2015/16 (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 apply from 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.
- 2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAFP 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 will contain 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.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2014/15 included the opinion of HAFP 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 seven 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 2015/16

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first seven months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.2** Table 1 shows that a total of 392 audit days have been undertaken compared to 393 planned. The variance of one day is not significant at this stage.

Table 1: Plan audit days compared to actual audit days for April to October 2015

Audit Area	Actual audit days for the year 2014/15	Plan audit days for the year 2015/16	Actual audit days to date	Pro rata plan audit days to date
Main Systems	336	285	234	
Central Systems	25	50	32	
Departmental Systems	79	105	56	
Performance and Management Scrutiny	39	45	16	
Computer Audit	28	55	2	
Management Responsibilities/Unplanned Audits	176	127	52	
Total	683	667	392	393

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.

- 4.3** From 1 January 2016, the Principal Audit Manager (PAM) will be taking flexible retirement. This will mean that his working days per week will reduce from five to three, resulting in a reduction of 20 planned audit days in the period up to the end of March 2016. The full year effect will be a reduction of 81 planned audit days in 2016/17. Discussions have been held with the Internal Audit Manager at Eastbourne BC who has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects. HAFP and PAM will put in place revised oversight arrangements to ensure that there will be minimal impact from the reductions in Audit Manager days. This joint working will deliver

progress on shared services between the two councils, and will generate a saving of approximately £8,400 per annum.

- 4.4** One of the Senior Auditors at LDC has taken retirement and left the Council on 19 November 2015. The vacancy will be filled in due course but there will be a small reduction in the days available for audit work in 2015/16.
- 4.5 *Main Systems:*** The testing of the major financial systems has been completed. The results provide 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 2014/15. A final report was issued.
- 4.6** The summary report on the work to test the Council's subsidy claim for Benefits for 2013/14 was finally issued. The priority work to test the Council's subsidy claim for Benefits for 2014/15 has been underway since late June 2015. Initial results were passed to BDO for evaluation, and BDO confirmed that significant extra testing would be required to determine the impact of the errors noted in processing some HB applications. The timetabled date for BDO to have signed off and submitted the audited claim is at the end of November 2015, but that date is unlikely to be met because of the extra work that has been required.
- 4.7 *Central Systems:*** Final reports have been issued for the audits of Ethics and Building Control. The audit of Health and Safety from the 2014/15 programme and the audit of Insurance are at the draft report stage.
- 4.8 *Departmental Systems:*** The initial work on the audit of Housing Management from the 2014/15 programme was completed, and feedback given to service managers; the second part of the audit has taken place and a final report has been issued. The final report from the audit of Trade Waste was issued.
- 4.9 *Performance and Management Scrutiny:*** As part of planned work on Programme Nexus, PAM was part of the officer group that was evaluating the tenders for the systems comprising the New Service Delivery Model (NSDM). HAFP was regularly involved as a member of the project team for the procurement. The procurement of the NSDM systems for LDC was halted because it was not consistent with the strategy for shared services with Eastbourne BC.
- 4.10 *Computer Audit:*** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 4.11 *Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigation Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the first reported matches for LDC were received on 29 January 2015. Further matches have been received, and there are now 1,567 matches detailed across 56 reports. Each report sets out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Council departments have nominated officers to investigate matches in their service area. The initial work has been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper

activity, and 777 matches have been actioned so far. There have been no instances of fraud found, although the exercise has identified 42 benefit overpayments resulting from error, with a total value of approximately £15,700. Any suspected cases of fraud would be passed to the Fraud Investigation Team for assessment, with any suspected cases of HB fraud forwarded to DWP (see 7.8 below) under the standard procedures.

- 4.13** Internal Audit and the Fraud Investigation Team have been working with departments to examine the controls over the Right to Buy (RTB) procedures, with the aim of improving the safeguards that help prevent possible RTB fraud.

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 2015/16 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the June 2015 meeting of the Committee.

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 2014/15 were reported to the June 2015 meeting of the Audit and Standards Committee. The results enabled the HAFP 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.
- 6.2** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs form the framework for the reporting on Internal Audit Benchmarking, and the results for 2014/15 were reported to the September 2015 meeting of the Committee.

7 Combatting Fraud and Corruption

Annual Report on the Council's work to combat Fraud and Corruption 2014/15

- 7.1** The Annual Report on the Council's work to combat Fraud and Corruption 2014/15 was presented to the September 2015 meeting of the Committee. Some of the issues outlined below were also covered in the Annual Report.
- 7.2** It should be noted that the reported statistics on fraud cases for 2014/15 and 2015/16 overlap in some areas because cases that began in the first year have been completed or closed in the second year.

Local developments

- 7.3** There had been some uncertainty over the future of the Benefit Fraud Investigation Team. CMT agreed a business case for the Investigation Team to work as part of Internal Audit from 1 November 2014 and from that date the team has been working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. Each interim report to the Committee contains a summary of the team's work (see 7.7 -7.10).

- 7.4** The Investigation Team will maintain its memberships of the East Sussex Fraud Officers Group (ESFOG) and the Sussex Tenancy Fraud Forum (TFF), bodies that enable information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.5** A sub group of six authorities within ESFOG, including LDC, is developing a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners, and the initial stages have seen a programme of standardised training and planning, trials of case management systems, and the exchange of best practice (see below).
- 7.6** Work on cases in the separate Hub authorities will continue to take priority, but increasingly activities are being coordinated to help in the development of joint approaches to common issues. For example, LDC has been leading on aspects of tenancy fraud; Eastbourne BC is leading on Right to Buy (RTB) fraud; LDC is developing the approach to business rate fraud on industrial estates, and Eastbourne BC is leading on business rates in the charity sector. Successful developments are shared with Hub partners via ESFOG.

LDC Investigation Team

- 7.7** During 2015/16, the team's work on countering tenancy fraud has focused on developing the case referral arrangements with officers in Housing Services, advising on controls over housing applications, and investigating reported cases of suspected fraud. Three abandoned properties have been returned to the housing stock as a result of successful investigations. One further case of abandonment was proven but the tenant declared an intention to return and was allowed to keep the property. Nine cases have been closed with the team able to prove that there had been no subletting or abandonment. Eight further cases are currently being investigated; two of these are complex cases that are likely to require court proceedings and may not be resolved for some months. Dealing fully with cases of property abandonment is a key part of the work to return unused properties to the housing stock, although abandonment is not regarded as fraud under the Prevention of Social Housing Fraud Act 2013.
- 7.8** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS), but LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. A total of 92 HB cases have been passed to SFIS since April 2015, and 64 information requests have been actioned. This liaison work with DWP/SFIS currently takes up, on average, 20 – 25% of the team's time, and therefore HB cases have continued to represent a significant activity for the team.
- 7.9** LDC retains responsibility for dealing with the cases of suspected Council Tax Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. There are currently 36 cases of suspected CTRS fraud under review, with eight cases having been proven and penalties administered.
- 7.10** NDR fraud is the current priority area for the team and, in early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the

Hub. The team has been working with LDC officers in the Revenues team to set up a method to target areas of possible non-payment of business rates. Visits to an industrial estate in Lewes District have identified nine business premises not recorded on NDR and therefore not paying business rates – the results have been passed to the local team of the Valuation Office Agency (VOA) for assessment. Further visits to other industrial estates are scheduled.

8 Risk Management

- 8.1** 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.
- 8.2** 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.
- 8.3** In response to the Government’s national deficit reduction plan, the Corporate Management Team (CMT) put in place a phased programme to make savings in the Council’s budgets. The programme commenced in 2011/12 and has achieved each of its annual savings targets including £596,000 in 2014/15. The savings target for 2015/16 is £561,000, and will mainly derive from the structural changes in the Organisational Development programme and from the introduction of a 2% vacancy savings target. In delivering these savings, a budget will be retained to cover future changes in the back office service arrangements and to enhance the joint working initiative with Eastbourne Borough Council which will then deliver further savings in future years.
- 8.4** The system of management assurance (see Section 9) has confirmed the operation of controls and the absence of significant control issues during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the Council’s restructuring, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes. This comment was reflected in the Annual Governance Statement (AGS) 2015 that was presented to the September 2015 meeting of the Committee (see Section 10).
- 8.5** The Annual Report on Risk Management was presented to Cabinet at its March 2015 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead. The report was copied to the June 2015 meeting of this Committee.

9 System of management assurance

- 9.1** 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 were responsible in 2014/15. A joint statement by the Chief Executive (Section 151) and Monitoring Officer confirmed that there were no significant governance issues for the Council in

2014/15 and there has been nothing in the first seven months of the financial year to change these assessments.

10 Corporate governance

- 10.1** In January 2015, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the January 2015 meeting of the Committee.
- 10.2** 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 2014/15 was reported to the September 2015 meeting of the Committee.

11 External assurance

- 11.1** 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 results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 11.2** Annual Audit Letter for 2014/15 (October 2015) – This report summarises the key issues from the work carried out by BDO during the year, and is presented separately to this meeting of the Committee. The key issues are:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
- BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were not re-elected in the May 2015 elections.
- BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion. .
- BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
- BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with standard guidance.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.
- BDO reported on the results of the most recent grant claims and returns certification report that covered two claims and returns for 2013/14, with a total

value of £37.5 million. Only the housing benefit subsidy claim for 2014/15 remains within the scope of the Audit Commission's grant certification regime, and the audit of the claim is currently in progress (see 4.6).

12 Financial Appraisal

12.1 There are no additional financial implications from this report.

13 Sustainability Implications

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

14 Risk Management Implications

14.1 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.

15 Legal Implications

15.1 There are no legal implications arising from this report.

16 Equality Screening

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

17 Background Papers

[Strategic Audit Plan 2015 to 2018](#)

18 Appendices

18.1 Appendix A: Statement of Internal Audit work and key issues.

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

APPENDIX A

Statement of Internal Audit work and key issues

Audit report: Housing Management - Sheltered Housing

Date of final issue: 16 November 2015

Overall opinion

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control covering the Sheltered Housing service. On the whole, compliance with procedures and controls is satisfactory, although there are a small number of issues that indicate there is scope to strengthen the way some controls are operated.

The audit was planned in two parts:

- A detailed desk exercise to assess the Quality Assessment Framework (QAF) that had been compiled to both monitor service standards in Sheltered Housing and to prepare the service for an external monitoring review by the Supporting People team at East Sussex County Council.
- A series of scheduled visits to sheltered housing schemes to determine the extent of compliance with the QAF, and to highlight any significant variations in services standards.

The review of the QAF showed that procedures are in place to ensure that all clients receive an assessment of their support needs and associated risks, and that clients are informed and consulted about the services provided at the sheltered housing schemes. There is clearly a commitment to safeguarding the welfare of people, particularly vulnerable groups, and to ensuring that the security, health and safety of clients, staff and the wider community are properly protected. In addition, the QAF includes procedures to ensure fair access, fair exit, diversity and inclusion for all clients. The review noted a number of points in the plan that required clarification and correction. A revised version of the QAF was prepared - Internal Audit concluded that the revised QAF provided a reasonable summary of the procedures and controls within the service, with planned actions as a means of dealing with remaining issues.

The visits to selected sheltered housing schemes confirmed that accommodation provided for clients at the Council's sheltered housing schemes is managed to a consistent standard. Also, the procedures and controls within the QAF operate to ensure that residents receive the appropriate assistance to support independent living. There are some issues for which further action needs to be considered, as outlined below. The report contains four recommendations.

Main points:

The QAF includes measures to try to ensure the safety and security of residents at sheltered housing schemes, and the visits by Internal Audit obtained reasonable assurance that these measures are in operation. When discussing these findings with housing managers it was evident that there is some doubt as to whether the current fire safety arrangements meet best practice standards, particularly in respect of the fire evacuation procedures and whether they are suitable for buildings housing elderly

residents. An external consultant is to provide guidance on what improvements may be necessary.

Scheme Managers have a good understanding of the importance of water hygiene and there are measures in place to limit the risk of Legionella infections, including taps and showers in communal rooms being flushed regularly. There is a reliance on residents using their own taps and showers sufficiently regularly to prevent Legionella, and it is not clear what would be done if residents are away from their accommodation for an extended period.

The overall standard of the Needs Assessments and Support Plans was noted as good, with some examples of excellent practice. However, there appeared to be variations in the way that plans were compiled and monitored at individual schemes. The inconsistencies had been identified by the Supported Housing Team Leader before the audit, and a range of measures is being put in place to address these issues.

Agenda Item No: 8

Report No: 161/15

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 30 November 2015

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer(s)-

Name(s): Stephen Jump
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Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To note the Mid-year Treasury Management Report 2014/2015.
 2. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2015 has been in accordance with the approved Treasury Strategy for that period.
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Reasons for Recommendations

- 1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet. The Audit and Standards Committee is also required to review the Mid-year Treasury Management Report.
- 2 **Mid-year Treasury Management Report 2015/2016**
 - 2.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee (and Cabinet) is also required to review a formal Mid-year summary report. Council then considers this report in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.
 - 2.2 The timing of the Committee/Council meeting cycle has meant that the Audit and Standards Committee does not have the opportunity to consider the Mid-year Report for 2015/2016 in advance of Cabinet, which received it on 23 November 2015 and recommended to Council that it should be approved when it meets on 9

December. However, it remains appropriate for the Audit and Standards Committee to consider this report, attached at Appendix 1, with any comments being passed on to Council when it meets.

- 2.3** The Mid-year Report covers the period 1 April to 30 September 2015. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year. Section 2 of the Mid-year Report provides a summary of performance against the key targets in the 2015/16 Strategy, with the remainder of the Report giving a more detailed explanation of borrowing and investment activity and the broader economic context within which officers have worked.

3 Treasury Management Activity

- 3.1** 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.
- 3.2** The timetable for reporting Treasury Management activity in 2015/2016 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
30 November 2015	1 September to 31 October 2015
25 January 2016	1 November to 31 December 2015
14 March 2016	1 January to 29 February 2016

3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 2015 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. The minimum rating required for deposits made are long term minimum A (Fitch). All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
225115	Coventry Building Society	03 Aug 15	03 Dec 15	122	2,000,000	0.500	A
225615	Nationwide Building Society	10 Aug 15	10 Feb 16	184	1,000,000	0.660	A
226315	Thurrock Borough Council	23 Sep 15	11 Feb 16	141	2,000,000	0.470	N/a
226915	The Moray Council	02 Oct 15	02 Nov 15	31	1,000,000	0.480	N/a
227015	Nationwide Building Society	08 Oct 15	08 Dec 15	61	1,000,000	0.460	A
					7,000,000		

3.4 Fixed Term Deposits which have matured in the reporting period

The table overleaf shows the fixed term deposits which have matured since 1 September 2015, 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 £23m over this period. Further information is given in paragraph 3.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
224615	Nationwide Building Society	08 Jul 15	08 Oct 15	92	1,000,000	0.50	A
226115	Debt Management Office	28 Aug 15	07 Sep 15	10	1,500,000	0.25	*
226215	Debt Management Office	01 Sep 15	11 Sep 15	10	5,000,000	0.25	*
226415	Debt Management Office	03 Sep 15	11 Sep 15	8	1,000,000	0.25	*
226515	Debt Management Office	14 Sep 15	23 Sep 15	9	2,000,000	0.25	*
226615	Debt Management Office	15 Sep 15	21 Sep 15	6	2,500,000	0.25	*
226715	Newport City Council	23 Sep 15	07 Oct 15	14	3,000,000	0.40	*
226815	Debt Management Office	01 Oct 15	12 Oct 15	11	2,000,000	0.25	*
227215	Debt Management Office	12 Oct 15	22 Oct 15	10	2,000,000	0.25	*
227315	Debt Management Office	15 Oct 15	22 Oct 15	7	3,000,000	0.25	*
Total					<u>23,000,0000</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 September to 31 October 2015 was 0.47%, below the average bank base rate for the period of 0.50%. Those made during the period also averaged 0.47%.

3.5 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 £2,222,510 generating interest of approximately £1,500

	Balance at 31 Oct '15 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	2,000	1,385	0.30%
Lloyds Bank Corporate Account	771	837	0.40%

3.6 Use of Money Market Funds

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

	Balance at 31 Oct '15 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,804	0.60%
Deutsche Managed Sterling Fund	2,000	2,631	0.54%

3.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 October 2015 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

		Purchased in period	Purchase date	£'000	Disc %
Held at 31 October 2015					
UK Treasury Bill 0%	18 Jan 16		20 Jul 15	1,000	0.585
UK Treasury Bill 0%	16 Nov 15		17 Aug 15	2,000	0.460
UK Treasury Bill 0%	15 Feb 16		17 Aug 15	1,000	0.540
UK Treasury Bill 0%	07 Dec 15	✓	07 Sep 15	1,000	0.459
UK Treasury Bill 0%	21 Mar 15	✓	21 Sep 15	1,000	0.562
UK Treasury Bill 0%	29 Mar 15	✓	28 Sep 15	1,000	0.565
UK Treasury Bill 0%	04 Apr 16	✓	05 Oct 15	1,000	0.548
UK Treasury Bill 0%	26 Jan 16	✓	26 Oct 15	1,000	0.479
UK Treasury Bill 0%	23 Nov 15	✓	26 Oct 15	1,000	0.396

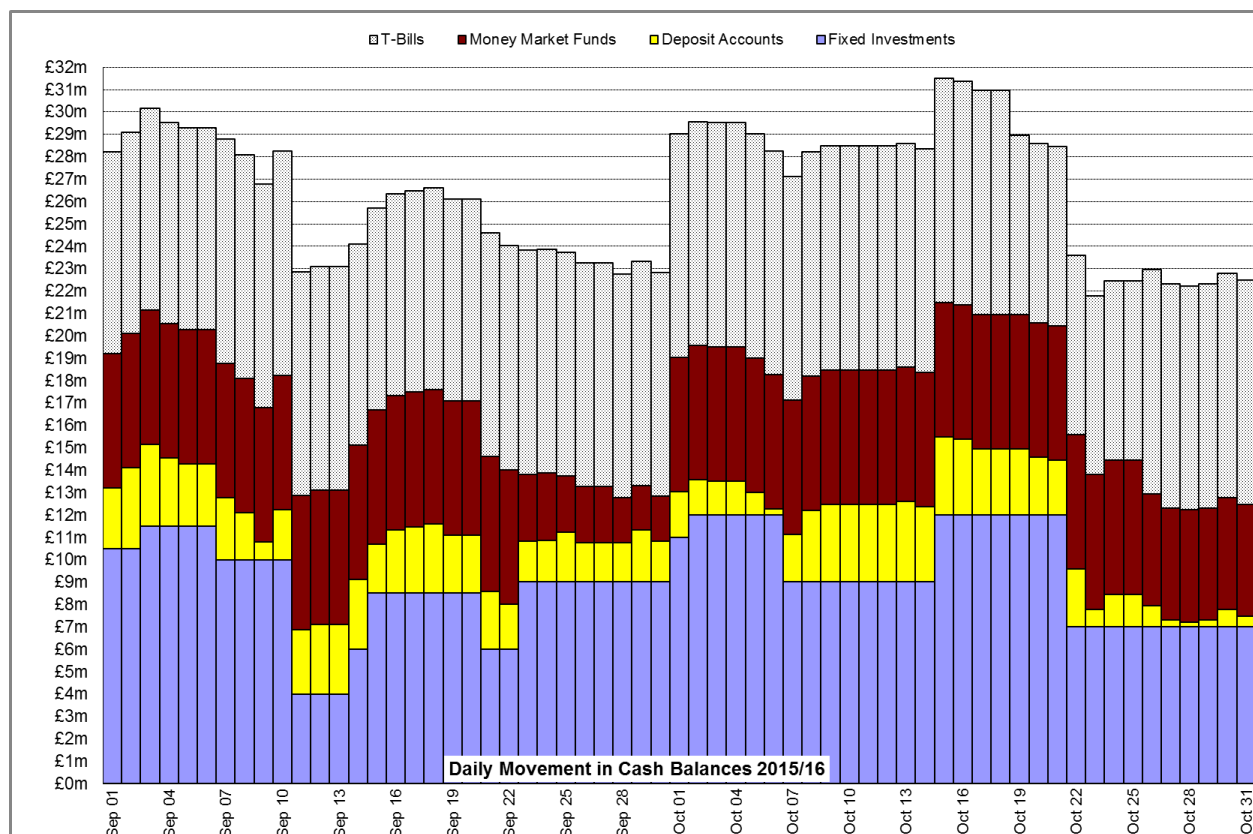
		Purchased in period	Purchase date	£'000	Disc %
Matured since last report					
UK Treasury Bill 0%	28 Sep 15		29 Jun 15	1,000	0.509
UK Treasury Bill 0%	19 Oct 15		20 Jul 15	1,000	0.495
UK Treasury Bill 0%	19 Oct 15		20 Jul 15	1,000	0.492
UK Treasury Bill 0%	07 Sep 15		10 Aug 15	1,000	0.439
UK Treasury Bill 0%	14 Sep 15		17 Aug 15	1,000	0.440
UK Treasury Bill 0%	05 Oct 15	✓	07 Sep 15	1,000	0.459

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.52%. Those purchased in the period averaged 0.53%.

From 16 October, a nominee account with a second broker has been in place, allowing the maximum amount of T-Bills held at any one time to be increased from £10m to £20m with a limit of £10m per broker.

3.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 September to 31 October 2015. It shows the total sums invested each day as Fixed Term deposits, T-Bills, or amounts held in Deposit accounts or MMF's.



3.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. No temporary borrowing has been undertaken.

3.10 Training

Arlingclose, the Council's Treasury adviser, held a briefing session in Lewes on Monday 12 October 2015. The session covered a broad range of treasury management issues, and was attended by 13 councillors..

Financial Implications

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

Risk Management Implications

- 5 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

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

Legal Implications

- 7 None arising from this report.

Background Papers - Treasury Strategy Statement

<http://www.lewes.gov.uk/council/20987.asp>

Appendices – Appendix 1: Mid-year Treasury Management Report 2015/2016

Lewes District Council

Mid-year Treasury Management Report 2015/2016

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1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) recommends that full Council should receive every year reports on Treasury Management policies and activity before the start of the year, mid-year and after the end of the year. The intention is that those with ultimate responsibility for the Treasury Management function appreciate fully the implications of Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 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.”

1.3 This mid-year report covers the period 1 April to 30 September 2015.

2. Overall Summary of Activity

2.1 At its meeting in February 2015, the Council agreed its Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18. The table below lists the key elements of that Strategy and records actual performance in the first six months of the year against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£74.034 million	£77.534 million (projection 31 March)	-
Internal borrowing at year end	£17.361 million	£20.861 million (projection 31 March)	-
New external long-term borrowing in year	None anticipated	None undertaken Apr to Sept '15.	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken Apr to Sept' 15. Potential identified for March 2015	✓
Interest payments on external borrowing	£1.730 million	£0.864m (to date)	✓
Investments			
Minimum counterparty credit ratings for investments of up to 1 year	Long-term A (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.075m	£0.074m (to date)	✓

Key Element	Target in Strategy	Actual Performance	
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every meeting	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Arlingclose scheduled to meet with Councillors and Staff October 2015	✓

- 2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2015/2016 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report analyses each of the key elements in more depth. Appendix A, supplied by Arlingclose explores the economic background to the year's activity and Appendix B lists all term deposits made in the first half of the year. A Glossary appears at the end of the document to explain the technical terms which could not be avoided when writing this report.

3. Detailed Analysis - Borrowing

- 3.1 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 has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific development projects to take place. A bid from this Council was successful and the debt cap has been increased to £75.248m to incorporate spending on 7 new build projects which will deliver 30 new homes in total.
- 3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with Balances and Reserves, are the core drivers of Treasury Management activity.
- 3.3 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 or banks. Alternatively it is possible to use the cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.
- 3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2015/2016, along with an updated analysis, is shown in the table below. The increases in capital expenditure

and financing shown reflect the approved capital programme as at September 2015, and assume that all projects are completed in the year. That outcome is unlikely however - the capital programme represents an allocation of funds to specific long-term projects many of which span financial years, for example the construction of a new depot facility at a projected cost of £3.5 million.

- 3.5 As at 30 September 2015, capital expenditure with a total value of £3.8m had been incurred (excluding commitments) compared with the approved capital programme of £25.6m (including £6.7m brought forward from 2014/2015). All capital expenditure will be funded from existing capital resources, with the exception of the construction of the new Depot facility in Avis Way, Newhaven, the shared community hub in Newhaven, the photovoltaic panel installation programme and the construction of new affordable homes.

	2015/16 Original £m	2015/16 Projected £m
Opening CFR	70.709	69.799
Capital expenditure in year (projected)	15.666	25.591
Less financed	(10.464)	(16.203)
Less amount set aside for debt repayment	(1.877)	(1.833)
Closing CFR	74.034	77.534

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

	2015/16 Original £m	2015/16 Projected £m
General Fund CFR	8.421	11.237
Housing Revenue Account CFR	65.613	66.297
Total CFR	74.034	77.534

- 3.7 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):

	31/3/16 Original £m	31/3/16 Projected £m
(a) Capital Financing Requirement	74.034	77.534
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves and working capital as alternative to borrowing (a)–(b)	17.361	20.861

- 3.8 Total interest paid on long-term borrowing in the period to 30 September 2015 was £0.864 million, representing the first of two instalments of interest due on the Council's loans from the PWLB and a £5 million market Lender's Options Borrower's Option (LOBO) loan at the rate of 4.5% with a term of 50 years. Under the terms of the LOBO, the Lender will next review the rate/terms of the loan in April 2016 and if it proposes an increase, the Council will have an option to repay.

- 3.9 The Council qualifies for new borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) in 2015/2016. In the period to September 2015, no new borrowing, either long-term or short-term (for cash flow purposes) had been undertaken.
- 3.10 Through the year, officers, supported by Arlingclose, monitor opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. The borrowing portfolio (£56.673m in total) includes one £5m PWLB variable rate loan with a maturity date in March 2022. The rate of interest on this loan is reviewed by the Government every six months (in September and March).
- 3.11 A review of the Council's position in September 2015, suggests that it might be cost effective to repay the £5m PWLB variable rate loan in March 2016. This external borrowing would be replaced by utilising reserves and balances and working capital, reducing the amount held for investment and its associated risk. An alternative would be to enter into long-term investments with a total value in excess of £5m, locking in a return in excess of the variable borrowing rate. At 31 March 2016, a minimum of £20.9m is expected to be held, comprising reserves and balances, £11.7m, and working capital, £9.2m. In early 2016, Arlingclose, the Council's Treasury Advisors will support the Council in determining the most appropriate approach in the light of market conditions at that time.

4. Detailed Analysis - Investments

- 4.1 The Council held on average £22.84 million available for investment in the period to 30 September 2015. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.
- 4.2 The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities have continued to be:

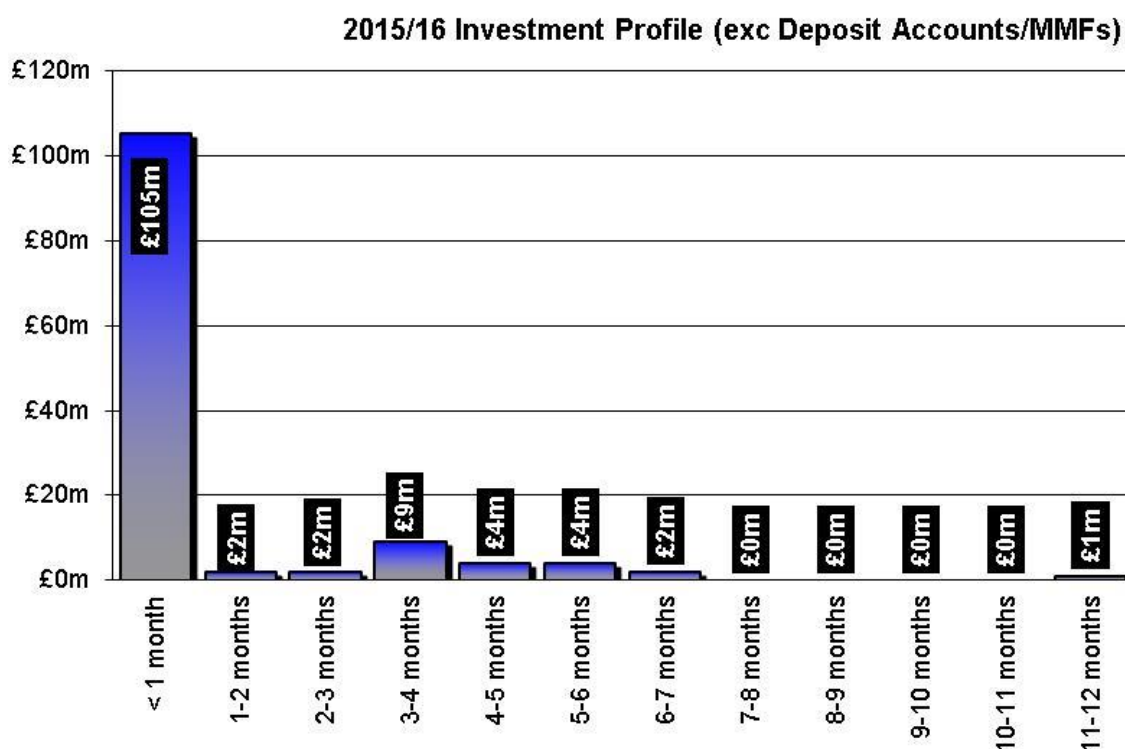
highest priority - security of the invested capital;

followed by - liquidity of the invested capital;

finally - an optimum yield commensurate with security and liquidity.

- 4.3 All of the Council's investments have been managed in-house. Security of capital has been maintained by following the counterparty policy set out in the Investment Strategy for 2015/2016. Investments during the period included:
- Fixed Term Deposits with the Debt Management Office (total £76.25 million)
 - Fixed Term Deposits with other Local Authorities (total £7.00 million)
 - Fixed Term Deposits with UK Banks/Building Societies (total £6.00 million)
 - Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £5.51 million)
 - United Kingdom Treasury Bills (average balance £8.30 million)
 - Deposit accounts with UK Banks (average balance held in year £1.59 million)
 - Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £0.94 million)

- 4.4 The Council has approved the use of two MMFs, DB Advisors – Deutsche Global Liquidity Series and Goldman Sachs Asset Management International.
- 4.5 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.
- 4.6 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts.
- 4.7 In September 2015, Cabinet agreed that a nominee account should be opened with a second broker to allow a maximum of £20m to be invested in negotiable instruments (eg Treasury Bills) at any one time. The Investment Strategy limits the amount that can be held in a single broker's account to £10m and Cabinet's decision increases the opportunity to make these investments in the second half of 2015/2016.
- 4.8 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2015/2016, the UK Bank Rate has been maintained at 0.5%.
- 4.9 A full list of temporary deposits made in the year is given at Appendix B. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of fixed term deposits by duration.



- 4.10 Interest generated from investments in the year to date was £0.074 million, just below the total 2015/2016 budget for investment income £0.075 million. The projected return to the year end indicates that the budget may be exceeded by £0.030 million. This favourable position has arisen as a result of higher than anticipated levels of cash being held pending expenditure on capital programme projects, etc.
- 4.11 The average rate of return from investments at the end of Quarter 1 and Quarter 2 is shown in the table below, along with comparative benchmark information from the Arlingclose client base. The return is below the benchmark, reflecting the very low credit risk and low duration of the Council's investment portfolio.

	Lewes District Council	Arlingclose client base
Average rate of investments 30 June 2015	0.46%	0.64%
Average rate of investments 30 September 2015	0.49%	0.66%

5. Counterparty Update

- 5.1 All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.
- 5.2 Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeenten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.
- 5.3 Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thüringen.
- 5.4 S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.
- 5.5 At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new

recommended counterparty and certain non-rated UK building societies also being extended.

- 5.6 At 30 September 2015, the following UK institutions met the Council's investment criteria and were potential counterparties:

Bank of Scotland plc	Barclays Bank plc
Close Brothers Ltd	Goldman Sachs International Bank
HSBC Bank plc	Lloyds Bank plc
Santander UK plc	Standard Chartered Bank
Coventry Building Society	Nationwide Building Society

A number of non-UK institutions also met the criteria, although there is very limited opportunity to place deposits with these institutions.

6. Banking Arrangements

Lloyds Bank plc was appointed as the Council's banker in 2014/2015 and accounts have been in operation since 1 September 2014.

7. Internal Borrowing

- 7.1 Following the national reform of housing finance, since 1 April 2012 the Council has adopted a 'two pool' approach to the accounting treatment of loans. Under this approach, interest on any external borrowing in respect of expenditure on General Fund services is to be charged to the General Fund, and interest on any external borrowing in respect of the Council's housing stock (Housing Revenue Account (HRA)) is to be charged to the HRA. At the start of the year, all external borrowing was attributed to the HRA.
- 7.2 Where the HRA or General Fund has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the approved Treasury Strategy explains that the rate charged on this internal borrowing will be based on the rate of interest applicable to a one-year maturity loan from the PWLB at the start of the financial year.
- 7.3 It is expected that an interest payment will be made from the HRA to the General Fund in 2015/2016, but the final amount will not be determined until the close of the year, dependent on the capital programme outturn for the year. The HRA capital programme at 30 September 2015 includes £4.10m in respect of the construction or acquisition of new properties, to be part-funded by borrowing but it is not expected to take new loans from the PWLB or other source. This constitutes internal borrowing by the HRA from the General Fund and an interest charge will be made as outlined above.

8. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2015/2016, which were set in February 2015 as part of the Council's Treasury Management Strategy Statement. Actual borrowing has remained within the Authorised Limit for External Debt (£72.5m) and the Operational Boundary for

External Debt (£67.0m).

9. Reporting and Training

- 9.1 The Director of Finance has reported the details of treasury management activity to each meeting of the Audit and Standards Committee and Cabinet held to date in 2015/2016.
- 9.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, were offered the opportunity to attend a local briefing session led by Arlingclose on 12 October 2015.
- 9.3 The training needs of the Council's treasury management staff continue to be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Staff continue to attend Arlingclose workshops, when appropriate to their needs, alongside colleagues from other local authorities during 2015/2016.

10. Investment Consultants

Arlingclose have been retained as the Council's treasury advisor through the period covered by this report, under the terms of a four year contract which runs to 31 August 2016.

Appendix A – Economic Background explained by Arlingclose

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centered on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) - barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minister of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis - the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported \$3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

UK Economy: The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted

by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

Outlook for Q3 and Q4 2015/16

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Average
Official Bank Rate														
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.08
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-0.70

Appendix B – Term deposits made and/or maturing April to September 2015

Loan	Counterparty	Principal	From	To	Rate
220714	Barclays Bank plc	1,000,000	13 Aug 14	13 Aug 15	1.0000%
222514	Telford and Wrekin Council	3,000,000	6 Feb 15	15 Apr 15	0.4000%
222815	Debt Management Office	2,000,000	1 Apr 15	7 Apr 15	0.2500%
222915	Nationwide Building Society	1,000,000	8 Apr 15	8 Jul 15	0.5000%
223015	Debt Management Office	1,000,000	15 Apr 15	20 Apr 15	0.2500%
223115	Debt Management Office	2,000,000	6 May 15	21 May 15	0.2500%
223215	Nationwide Building Society	1,000,000	6 May 15	6 Aug 15	0.5000%
223315	Debt Management Office	2,500,000	7 May 15	8 May 15	0.2500%
223415	Debt Management Office	1,000,000	8 May 15	11 May 15	0.2500%
223515	Debt Management Office	1,000,000	8 May 15	18 May 15	0.2500%
223615	Debt Management Office	1,500,000	15 May 15	19 May 15	0.2500%
223715	Debt Management Office	1,500,000	15 May 15	21 May 15	0.2500%
223815	Debt Management Office	2,500,000	1 Jun 15	8 Jun 15	0.2500%
223915	Debt Management Office	1,000,000	3 Jun 15	9 Jun 15	0.2500%
224015	Debt Management Office	3,000,000	8 Jun 15	22 Jun 15	0.2500%
224115	Debt Management Office	3,000,000	15 Jun 15	22 Jun 15	0.2500%
224215	Debt Management Office	1,000,000	22 Jun 15	25 Jun 15	0.2500%
224315	Debt Management Office	1,750,000	25 Jun 15	2 Jul 15	0.2500%
224415	Plymouth City Council	2,000,000	30 Jun 15	1 Jul 15	0.3500%
224515	Debt Management Office	3,000,000	2 Jul 15	13 Jul 15	0.2500%
224615	Nationwide Building Society	1,000,000	8 Jul 15	8 Oct 15	0.5000%
224715	Debt Management Office	2,000,000	13 Jul 15	20 Jul 15	0.2500%
224815	Debt Management Office	4,000,000	15 Jul 15	21 Jul 15	0.2500%
224915	Debt Management Office	3,000,000	21 Jul 15	27 Jul 15	0.2500%
225015	Debt Management Office	3,000,000	27 Jul 15	7 Aug 15	0.2500%
225115	Coventry Building Society	2,000,000	3 Aug 15	3 Dec 15	0.5000%
225215	Debt Management Office	2,000,000	3 Aug 15	7 Aug 15	0.2500%
225315	Debt Management Office	6,000,000	3 Aug 15	10 Aug 15	0.2500%
225415	Debt Management Office	1,000,000	6 Aug 15	10 Aug 15	0.2500%
225515	Debt Management Office	4,000,000	10 Aug 15	14 Aug 15	0.2500%
225615	Nationwide Building Society	1,000,000	10 Aug 15	10 Feb 16	0.6600%
225715	Debt Management Office	4,000,000	14 Aug 15	17 Aug 15	0.2500%
225815	Debt Management Office	2,000,000	17 Aug 15	19 Aug 15	0.2500%
225915	Debt Management Office	3,000,000	17 Aug 15	24 Aug 15	0.2500%
226015	Debt Management Office	2,500,000	24 Aug 15	28 Aug 15	0.2500%
226115	Debt Management Office	1,500,000	28 Aug 15	7 Sep 15	0.2500%
226215	Debt Management Office	5,000,000	1 Sep 15	11 Sep 15	0.2500%
226315	Thurrock Borough Council	2,000,000	23 Sep 15	11 Feb 16	0.4700%
226415	Debt Management Office	1,000,000	3 Sep 15	11 Sep 15	0.2500%
226515	Debt Management Office	2,000,000	14 Sep 15	23 Sep 15	0.2500%
226615	Debt Management Office	2,500,000	15 Sep 15	21 Sep 15	0.2500%
226715	Newport City Council	3,000,000	23 Sep 15	7 Oct 15	0.4000%

Glossary of 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.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which other rates are based.
Basis Point	A convenient way of measuring an interest rate (or its movement). It represents 1/100 th 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, multilateral development banks and corporates. 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.
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	Organisation with which the Council makes 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 are 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.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every 5 years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new fixed rate or repay the loan.
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.

Agenda Item No: 9

Report No: 162/15

Report Title: Annual Report on the Establishment and Maintenance of a Register of Interests 2015/2016

Report To: Audit and Standards Committee **Date: 30 November 2015**

Cabinet Member: Councillor Elayne Merry

Ward(s) Affected: All

Report By: Catherine Knight, Monitoring Officer, Assistant Director of Corporate Services

Contact Officer(s)-

Name(s): Ruby Brittle
Post Title(s): Committee Officer, Democratic Services
E-mail(s): ruby.brittle@lewes.gov.uk
Tel No(s): 01273471600

Purpose of Report:

To confirm that the Register of Interests is being maintained in accordance with the Council's Constitution

Officers Recommendation(s):

- 1 To receive and note the annual report by the Monitoring Officer
-

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes a requirement to consider the Monitoring Officer's annual report on the establishment and maintenance of a register of interests of Members and co-opted Members of the Council. The Monitoring Officer has further requested that the Annual Report submitted to the Committee also outlines the number and nature of Standards complaints received in the municipal year 2014/2015.

Information

2

- 2.1 Section 29 of the Localism Act 2011 requires the Monitoring Officer to establish and maintain a register of interests of the Members and Co – opted Members of the District Council
- 2.2 In accordance with the Council's Code of Conduct each Councillor is required to complete a register of Members' interest form annually in

order maintain an up to date register of financial and other interests of Members.

- 2.3** The Code also requires each Councillor to register details of any new personal interest or change of any personal interest in writing to the Council's Monitoring Officer within 28 days of becoming aware of any new interest or change of interest. Each Councillor is made aware of their obligation to inform the Council's Monitoring Officer at the same time as being issued with the form for completion on annual basis.
- 2.4** Democratic Services issue each Councillor with a form on which Members are asked to register their interest for that municipal year. Forms were issued to Councillor in May 2015 for the 2015/2016 municipal year. At the time of writing this report, 41 out of 41 Councillors had returned completed forms.
- 2.5** Returned forms are made public for inspection on the Council's web site, <http://lewes.cmis.uk.com/cmis5/Councillors.aspx> . The relevant Register of interest is attached to each Councillor's Profile. All changes and updates are published in the same way. The register can also be inspected by contacting the Head of Democratic Services.
- 2.6** Town and Parish Councillors within Lewes District are also required to complete a Register of Member's Interest form in accordance with their Town or Parish Council's Code of Conduct. The Town and Parish Council Clerks forward details of those interests to Democratic Services for publication on Lewes District Council's web site at <http://www.lewes.gov.uk/community/2323.asp>
- 2.7** The Localism Act 2011 defined certain interest as being "disclosable pecuniary interests". Section 34 of the Localism act makes it a criminal offence for a member or co-opted member to fail, without reasonable excuse, to comply with a requirements under the Act to register or declare disclosable pecuniary interests, or take part in discussions or to vote at meetings without registering his/her interest or disclosing it's existence at the meeting .

The Council has a responsibility to deal with Standards matters for both Lewes District Council and the Town and Parish Councils within the District. The Appendix to this report contains further statistical information about the complaints received and such action, if any, taken in connection with them.

Any complaint received by the Monitoring Office is the subject of consultation with at least one of the Council's two appointed "Independent Persons." Following consultation, the Council's adopted procedure, which can be found on the council's website entitled [Arrangements for Dealing with Complaints about Councillor Conduct](#) requires the Monitoring Officer to take a decision as to whether the complaint merits formal investigation.

Relevant extracts from the Council's procedure provide:

"The Monitoring Officer may decide a complaint does not merit investigation if:

- It is about someone who is no longer a member of the Council
- There has been a long delay before the complaint was made
- The complaint appears to be minor, politically motivated, or not sufficiently serious to warrant further action.

This list is not intended to be exhaustive and the Monitoring Officer may decide that a complaint does not merit formal investigation for any other reason which appears to him/her to be relevant.

The Monitoring Officer has discretion to refer the decision as to whether a complaint merits an investigation to the Standards Panel if it appears appropriate to do so.

Where he/she requires additional information in order to come to a decision, he/she may come back to you for such information, and may request information from the member against whom your complaint is directed. Where your complaint relates to a Town/Parish Councillor, the Monitoring Officer may also inform the Town/Parish Council of your complaint and seek the views of the Town/Parish Council before deciding whether the complaint merits formal investigation.

In appropriate cases, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the member accepting that his/her conduct was unacceptable and offering an apology, or other remedial action by the authority. Where the member or the authority make a reasonable offer of local resolution, but you are not willing to accept that offer, the Monitoring Officer will take account of this in deciding whether the complaint merits formal investigation.

If your complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer has the power to call in the Police and other regulatory agencies."

Financial Appraisal

- 3** There are no additional financial implications arising from this report

Legal Implications

- 4** None over and above those set out in the body of this report

Risk Management Implications

- 5 I have completed the Risk Management Checklist, and this Report is exempt from the requirement.

Equality Screening

- 6 I have given due regard to equalities issues and, as this is an internal monitoring report with no key decisions, screening for equalities is not required.

Background Papers

- 7 Minutes of the full Council Meeting Held on 4 December 2013

[Minutes of Council 4 December 2013](#)

Audit and Standards Committee Remit

[Constitution - Part 11 V10 - V11](#)

Code of Conduct of Members of the Council

[Constitution Part 5 L1-L15](#)

Register of Interests of Members and Co-opted Members of the Council

[Constitution Part 5 M1](#)

Appendices

- 8 Standards Complaints about Councillor conduct received by Lewes District Council's Monitoring Officer 2014/2015

Number of Complaints Received in Financial Year 2014/2015	<ul style="list-style-type: none"> - 10 Complaints 	<ul style="list-style-type: none"> - 1 Hamsey Parish Council - 1 Newhaven Town Council - 1 Telscombe Town Council - 2 Seaford Town Council - 1 Newick Parish Council - 2 Lewes District Council - 1 Chailey Parish Council - 1 East Sussex County Council (ESCC)
Number of Complaints not progressed and reasons why	<ul style="list-style-type: none"> - 4 complaints did not progress and required no action by the Monitoring Officer 	<ul style="list-style-type: none"> - 1 complaint related to an incident which had taken place more than 12 months prior to the complaint and therefore in accordance with the Committee's own policy was deemed to be out of time. - 1 complaint related to a personal matter, unrelated to Councillor Conduct and was therefore outside the Monitoring Officer's remit. - 1 complaint concerned a planning matter and related to Parish Council decision making and procedures rather than individual Councillor Conduct and was therefore outside the Monitoring Officer's remit. - 1 Complaint related to an ESCC Councillor and was therefore outside the Monitoring Officer's

		remit.
<p>Number of Complaints considered by the Monitoring Officer in consultation with the independent person</p>	<ul style="list-style-type: none"> - 6 complaints were considered. Of these, two were the subject of formal investigations. One of the investigations was carried out by an external investigator while the other was carried out by the Monitoring Officer 	<p>1 Complaint related to allegations that Councillors had failed to abide by Council approved governance procedures, misused Council resources and had been disrespectful.</p> <p>This complaint was referred to an external investigator. The investigator's report recommended that the Monitoring Officer arrange specific training for the Clerk and Parish Councillors about good governance practice.</p> <ul style="list-style-type: none"> - Two complaints related to an allegation that Councillors had been rude and/or bullying and had shown a lack of respect. One complaint was the subject of a formal investigation by the Monitoring Officer who found there had not been a breach of the Code. The other was not sufficiently serious to warrant further action. - Three complaints alleged that Councillors had failed to make an appropriate declaration of interests in agenda items. The Monitoring

		Officer found each of these complaints to be unsubstantiated.
Number of Standards Panels held	<ul style="list-style-type: none"> - 1 (This related to a Complaint received before the financial year of 2014/2015 began but that continued well into 2014/2015) - 	
Number of Standards Hearings held	<ul style="list-style-type: none"> - 1 formal hearing. This related to the complaint considered by the Standards Panel (see immediately above) 	<ul style="list-style-type: none"> - The outcome of the hearing was that the Councillor was found to be in breach of the Code of Conduct. The sanctions were as follows: - The Monitoring Officer was requested to publish the Panel's findings and to relay these to the councillor and the Town Council. - The Panel recommended that the Town Council arranged training as to the respective roles and responsibilities of Members and Officers. - The Panel also recommended that until an appropriate time and training had been received, the Town Council should remove the Councillor from all committees/sub-committees of the Council.
Cost to the District Council of	<ul style="list-style-type: none"> - 2 Complaints warranted action by 	<ul style="list-style-type: none"> - The cost for two external

engaging investigator	an Independent Investigator	investigations was £12,463.20
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