



## 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, 25 January 2016** at **11:30** 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.

19/01/2016

Catherine Knight  
Assistant Director - Corporate Services

### Agenda

- 1 Minutes**  
To approve the Minutes of the meeting held on 30 November 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 from Councillors**  
To deal with written questions from Members pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution)
- 6 Contract Procedure Rules (Page 3)**  
To consider the Report of the Director of Corporate Services (Report No. 15/16 herewith)
- 7 Interim Report on the Council's Systems of Internal Control 2015/16 (Page 39)**  
To receive the Report of the Director of Corporate Services (Report No. 16/16 herewith)
- 8 Treasury Management (Page 50)**  
To consider the Report of the Director of Corporate Services (Report No. 17/16 herewith)
- 9 Annual Treasury Management Strategy Statement and Investment Strategy 2016/2017 to 2018/2019 (Page 55)**  
To receive the Report of the Director of Corporate Services (Report No. 18/16 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 14 March 2016 in the Telscombe Room, Southover House, Southover Road, Lewes 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](mailto:michaela.frost@lewes.gov.uk) or [ruby.brittle@lewes.gov.uk](mailto:ruby.brittle@lewes.gov.uk) )*

**Agenda Item No: 6**

**Report No: 15/16**

**Report Title: Contract Procedure Rules**

**Report To: Audit & Standards  
Committee**

**Date: 25 January 2016**

**Cabinet Member:**

**Ward(s) Affected: All**

**Report By: Director of Corporate Services**

**Contact Officer(s)-**

**Name(s): Celia Cullen**  
**Post Title(s): Lawyer**  
**E-mail(s): celia.cullen@lewes.gov.uk**  
**Tel No(s): (01273) 471600**

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**Purpose of Report:**

To consider a revised set of contract procedure rules, and recommend them to full Council for approval.

**Officers' Recommendation(s):**

- 1 To consider the revised contract procedure rules set out in full at Appendix 1.
- 2 To recommend that full Council approve the revised rules as drafted.

**Reasons for Recommendations**

- 1 The contract procedure rules (CPRs) form part of the council's constitution and determine how officers contract with external bodies. The CPRs ensure lawfulness and best practice in terms of the procurement of services, supplies or works. Clear and up-to-date CPRs play a key role in ensuring that best value is achieved for the authority and that the council is not exposed to risk.
- 2 Local authority procurement is an evolving area which is subject to scrutiny and challenge. The current CPRs were approved in 2009 and need to be fully revised now to ensure they reflect current law, best practice and the environment in which the council is now operating.

## Information

### 3. Reasons for revisions

There are three key reasons for revising the CPRs at this time:

- (i) To reflect the Public Contract Regulations 2015.
- (ii) To achieve a standard set of CPRs for Eastbourne Borough Council, Lewes District Council and Eastbourne Homes Ltd.
- (iii) To enable a modern and responsive approach to procuring works, supplies and services.

### 4. Public Contract Regulations 2015

The Public Contracts Regulations 2015 (PCR 2015) implement the 2014 EU Public Sector Procurement Directive and a range of other reforms. They largely apply to public contracts that exceed certain value thresholds. PCR 2015 came into force earlier this year.

The PCR 2015 outline a number of standard procurement procedures for public bodies to follow. They also mandate the use of Government portals such as Contracts Finder for the advertising of certain contracts and place greater emphasis on electronic availability of procurement documents.

As is the case with previous PCRs, there are a number of exemptions and exceptions defined within the regulations which contracting authorities may choose to exercise, with appropriate care and legal advice.

The revised CPRs reflect the important changes contained with the PCR 2015.

### 5. Standardisation of CPRs

Lewes District Council (LDC) is already sharing a range of services with Eastbourne Borough Council (EBC), in addition to shared senior management roles, and in October 2015 both EBC and LDC Cabinets approved the outline business case for wider integration of services and workforces.

It is clear that the future will entail staff working across multiple organisations to deliver shared and closely integrated services. It is therefore important that staff can work to a set of common policies, rules and procedures in key areas, and therefore the revised CPRs will be put forward for adoption by both LDC and EBC.

An equivalent report to this one was considered by EBC Audit & Governance Committee on 2 December 2015; by their Cabinet on 9 December 2015; and by LDC's Cabinet on 7 January 2016. All three bodies resolved to recommend the revised CPRs, as drafted in Appendix 1 of this report (with the exception of rule 18.1A, which applies solely to LDC), for approval by the respective full Council.

## 6. Modernisation of CPRs

In order to respond effectively to the economic constraints facing local authorities, and continue to deliver the wide range of statutory and non-statutory services we do, EBC has needed to become more modern, agile and entrepreneurial, as well as working more effectively in partnership.

Our CPRs are a key enabler of this modern approach, and aspects of the current rules are now out of step with the way we need to do business. The PCR 2015 encourage a more electronic approach to procurement and this, amongst other changes, is reflected in the revised rules.

## 7. Summary of revisions

The full revised CPRs are attached as Appendix 1. The most significant changes are summarised in the table below.

<b>Current CPRs</b>	<b>New CPRs</b>	<b>Reason for Change</b>	<b>Controls</b>
Different rules for EBC and LDC	One set of rules for all three organisations.	Makes compliance easier for staff working across all three organisations	Staff from all three organisations have been consulted and have agreed on the changes.
No discretion to appoint contractors direct, even for lower value procurements – three quotes always required.	Officer discretion to make direct award under £25k.	A blanket requirement for three quotes is inflexible and often inefficient, for the council and for contractors. It is appropriate to allow a level of discretion to appoint specialist or trusted contractors for lower value work. Most councils will have such a provision.	Any direct awards (i.e. without competitive quotes) must be agreed with the Accountable Officer, usually a member of the Corporate Management Team.  Regular reviews of spend against aggregation rules will prevent this from being used year on year to award work to the same contractor.
Requires that contract opportunities over £50,000 are advertised.	Services and Supplies: Requires that contract opportunities over £100,000 are advertised.	An unlimited number of suppliers can respond to advertised opportunities,	At least three quotes must be sought to demonstrate best value.  For works contracts

	<p>Works: Requires contract opportunities over £1,000,000 are advertised</p> <p>In all cases the advert must appear on the Government portal Contracts Finder.</p>	<p>which can create significant extra work and delays in appointing contractors.</p> <p>The PCR 2015 require the use of Government portal for contracts advertised where the value is above £25,000.</p>	<p>below £1,000,000 the parties invited to quote must be selected from Constructionline which is a Government endorsed register for pre-qualified local and national contractors.</p> <p>Officers may still choose to advertise lower value contracts.</p>
<p>All tenders must be submitted in hard copy to the Town Hall, recorded in a tender opening book and opened with a councillor present.</p>	<p>Tenders can be submitted electronically via an e-tendering system</p>	<p>To reflect the modern, agile and electronic approach to working adopted by EBC and LDC</p>	<p>The e-tendering system will provide a rigorous audit trail for every procurement and prevent tenders from being opened before the closing date</p>
<p>No mention of disposal of land</p>	<p>Clear rules stating that disposal of land via sale or lease must only happen after auction, invitation of tenders or expressions of interest following public advertisement, in at least one newspaper circulating in the District, unless specifically authorised by Cabinet</p>	<p>There is an obligation to demonstrate best value in respect of land disposals and this isn't addressed in the current rules.</p>	<p>This offers greater clarity and control than the current rules.</p>

## **Financial Appraisal**

8. The recommendation made in this report has no direct financial implications for the Council. The revised CPRs will modernise the Council's procedures for procuring goods and services and disposing of assets, while continuing to ensure that value for money is achieved.

## **Legal Implications**

9. The Council's legal team has drafted the new CPRs to ensure they comply with EU law and the PCR 2015.

The CPRs form an important part of the council's constitution. Changes of substance to the constitution will only be approved by the full Council after consideration of the proposal by the Monitoring Officer and, where appropriate, the Audit and Standards Committee.

Members of the Audit and Standards Committee are therefore asked to consider the revisions and recommend the draft new CPRs for approval by full Council.

## **Risk Management Implications**

10. Up to date and robust contract procedure rules are an important element of council governance against a background of compliance with European procurement rules and achieving value for money in all contracts let.

## **Equality Screening**

11. There are no equality implications associated with this report.

## **Background Papers**

12. Public Contract Regulations 2015

## **Appendices**

13. Appendix 1: Revised Contract Procedure Rules

## Part 4

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## 1. INTRODUCTION

### 1.1. BASIC PRINCIPLES

Contracts for the supply of works, goods, services and disposal of assets have a high profile in terms of public accountability. Not only does the public expect that the *Organisation* achieves best value from its procurement and contractual arrangements, but it also expects fair competition, the highest standards of honesty and integrity from those involved, and transparency in respect of all decisions made as part of this process.

Accordingly, all procurement or the disposal of assets carried out by the *Organisation* must:

- a. Achieve best value.
- b. Be consistent with the highest standards of integrity.
- c. Ensure fairness in allocating public contracts or disposal of assets.
- d. Comply with all legal requirements.
- e. Support the *Organisation's* corporate and departmental aims and policies.
- f. Comply with the *Organisation's* Procurement Strategy where there is a current one in place.

A contract is a legally enforceable agreement which gives rise to new rights and duties those who agree to its terms. A contract is formed when the following key elements coincide:

- Offer.
- Acceptance.
- Consideration.
- Intention to create legal relations.
- Certainty of terms

This can include purchase orders, emails, letters and other forms where the above criteria are met.

### 1.2. OFFICER RESPONSIBILITIES

1.2.1. All officers responsible for purchasing or disposal must comply with these Contract Procedure Rules and the *Organisation's*:

- a. Financial Procedure Rules;
- b. Contract Manual;
- c. Code of Conduct; and
- d. all UK and European Union binding legal requirements.

Where there is a conflict between the *Organisation's* internal rules, codes and policies and these Contract Procedure Rules, then these Contract Procedure Rules will take precedence.

1.2.2. Officers must ensure that agents, consultants and contractual partners acting on the *Organisation's* behalf must also comply with the matters listed in 1.2.1.

### 1.3. MEMBERS RESPONSIBILITIES

Members should refer to the Code of Conduct at their Organisation. They should also have regard to the Councillor Protocol for Procurement Annexed to these Rules.

### 1.4. WHERE TO GET ADVICE

- 1.4.1. These Contract Procedures Rules are divided into two sections to cover the situations where the *Organisation* is acting either as a “purchaser” (when public procurement rules will apply) or as a “seller” or generating an income (when other regulatory requirements will apply).
- 1.4.2. *Officers* who are uncertain as to whether or not the Rules apply, or how the Rules apply, should seek advice from their *Procurement Team* and/or *Legal Services* at an early stage.

## 2. COMPLIANCE AND EXCEPTIONS

### 2.1. COMPLIANCE

Every contractual arrangement entered into by the *Organisation* shall comply with these Contract Procedure Rules unless an *exception* or *waiver* applies.

### 2.2. NON-COMPLIANCE

- 2.2.1. Any non-compliance with any of these Contract Procedure Rules must be notified to the *Chief Finance Officer* and the *Monitoring Officer* at the earliest opportunity.
- 2.2.2. Failure to adhere to these Contract Procedure Rules could result in disciplinary proceedings.
- 2.2.3. If these Contract Procedure Rules are not complied with, this will not invalidate any contract entered into by the *Organisation*, except where European or English law provides to the contrary.

### 2.3. EXCEPTIONS

- 2.3.1. These Rules do not apply to:
  - a. Public services contracts which are excluded from the application of the PCR 2015 under Regulation 10 (Specific exclusions for services contracts) and Regulation 12 (Public Contracts between entities within the public sector).
  - b. Public contracts excluded from the application of the UCR 2006 under Regulation 6 (General exclusion).
  - c. Contracts of employment making an individual a direct employee of the *Organisation*.
  - d. Contracts for the acquisition or rental, by whatever financial means, of land, existing buildings or other immoveable property, or which concerns interests in or rights over any of them (other than those situations covered by Section 2 of these Rules).

- e. Unconditional grants; for example, for community services. When deciding if a grant is subject to procurement rules, officers must consider the project as a whole. It is possible that an arrangement referred to as a grant could actually meet the definition of a contract set out in the PCR 2015. Whatever the nature of the grant, legal advice should always be sought when considering the making a grant, to determine whether it is in fact a contract.
- f. Contracts made to engage artists, orchestras, shows or similar events or attractions at the *EBC's* theatres and other such performance venues provided by the Council PROVIDED THAT the Senior Head of Tourism and Leisure consults the relevant *Cabinet Portfolio Holder* before agreeing to a contract for seasonal engagement of more than four weeks and that such services fall below the *Applicable Threshold Value* for *Schedule 3 Service Contracts*.

## 2.4. WAIVERS

### 2.4.1. Subject to paragraph 2.4.2:

- a. The *Cabinet* has power to waive any requirements within these *Rules* for specific projects, in which case its reasons for doing so shall be recorded in the Minutes of the *Cabinet* meeting;
- b. The *Accountable Officer* has power to waive any requirements within these *Rules* in cases of urgency, after consultation with the *Leader of the Council*. Any necessary resulting action must be reported to the next meeting of the *Cabinet*.
- c. The *Accountable Officer* has power to waive the requirement within these *Rules* that requires the use of *Constructionline* to select those to quote for Works contracts with a value above [£25,000] and not exceeding [£1,000,000].
- d. In cases of contracts above the *Applicable Threshold Level*, the *Accountable Officer* has power to waive any requirements within these *Rules*, so as to allow the use of the negotiated procedure without prior publication in the specific cases and circumstances laid down in Regulation 32 of the *PCR 2015*, after consultation with the *Leader of the Council*.
- e. In cases of contracts below the *Applicable Threshold Level*, the *Accountable Officer* has power to waive any requirements within these *Rules*, so as to allow negotiation with only one potential contractor without prior advertisement, requests for quotations or tenders where:
  - i. the circumstances are analogous to those set out in Regulation 32 of the *PCR 2015* for above the *Applicable Threshold Level* contracts;
  - ii. the contract is one to which Regulation 8 PCR 2015 (Specific exclusions in the field of electronic communication) applies;
  - iii. the contract is one to which Regulation 14 PCR 2015 (Research and development services) applies.

As a general principle, waivers should only be authorised where there are objectively demonstrable grounds for doing so.

- 2.4.2. Where a proposed contract is subject to the provisions of a European Union procurement Directive or UK legislation then there will be no power to waive or

depart from the requirements of the mandatory provisions set out in that legislation.

- 2.4.3. Nothing in these *Rules* prevents the acceptance of a quote or tender, or requires a waiver, simply because less than the minimum number of quotations or tenders have been submitted in response to a procurement process, as long as at least the minimum number of entities were actually requested to quote or tender as required under the *Rules*.

### **3. AUTHORITY FOR THE CONTRACT**

- 3.1. Sufficient budget approval should be obtained before a procurement process is commenced. No contract for the supply of goods or services or for the execution of any work shall be entered into, nor any order given for such work unless the appropriate financial provision has been made in the capital or revenue estimates, except pursuant to a specific resolution of the *Organisation* or the *Cabinet*. (See also the Financial Procedure Rules).
- 3.2. The *Designated Officer* will be required to produce confirmation of the authorisation for the contractual arrangement before it is entered into. [(see also the Scheme of Delegations to Officers).]

## SECTION 1 PURCHASING

### 4. PRE-PROCUREMENT CONSIDERATIONS

*Officers* should appraise the purchase, in a matter commensurate with its complexity and value, taking into account any guidance in the Contract Manual.

It is important that *Officers* have considered the content of these *Rules* and the Contract Manual in advance of undertaking a procurement process to ensure that all the relevant issues have been taken into account and any internal consultation undertaken. There are obligations which impact on purchasing decisions beyond the procurement regulations which may need to be taken into account as appropriate, for example:

- The Public Services (Social Value) Act 2012: how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area.
- Local Government Act 1999: best value duty.
- Local Government Act 1988: non-commercial considerations.
- Application of TUPE and pension rules.
- ICT and potential data security issues.
- State Aid

Where *Officers* consider that it may be helpful in undertaking some early **pre market engagement** with potential contractors they should refer to the Contract Manual or *Legal Services* for assistance.

#### 4.1. TYPES OF CONTRACT

More detail can be found in the Contract Manual, but outlined below are the types of contract categories governed by the procurement regulations:

- Public Service Contract
- Public Works Contract
- Public Supply Contract
- Specialist Contracts
  - Design Contests
  - Subsidised Contracts Works and Services Contracts
  - Public Works Concession Contracts
  - Public Services Concession Contracts
  - Framework Agreements
- Dynamic Purchasing Systems

- Innovation Partnership
- Utilities Contracts

#### 4.2. WHAT IS BEING PROCURED?

Officers planning a procurement process must consider what type of contract is being considered in order to understand and plan the application of these Rules. For many purchases this will be a straightforward matter, however, this can be a complex area in relation to some projects. Further guidance can be found in the Contracts Manual or *Legal Services* should be consulted. In summary, it is necessary to have considered the following questions to determine the procurement rules applicable:

- 4.2.1. If the transaction involves more than one element (e.g. it includes works and services), is the transaction capable of being structured as an indivisible whole? If so what is the main object of the contractual arrangements?
- 4.2.2. Alternatively, are the elements of a mixed contract capable of being structured as stand-alone transactions? If so what are the main objectives of each of the contractual arrangements?
- 4.2.3. Where there is only a single subject matter for the transaction, or if (with regard to 4.2.2) the elements of a mixed transaction can be taken as separate contracts, do they amount to public contracts or concessions under the procurement regime? If so what is the correct classification of each contract and which set of regulations apply? Do the procurement regulations in relation to Utilities apply?
- 4.2.4. If there is a public contract (including a concession or utilities contract), is it one that requires advertisement and competition under the regulations or are there exemptions that apply?
- 4.2.5. In any event is the contractual arrangement one to which the *Treaty* obligations apply? If so, is the opportunity of certain cross border interest and so will require some form of advertisement and competition?
- 4.2.6. Regardless of how the public procurement regulations apply, do these *Rules* apply? Are there any *exceptions* or does there need to be a *waiver*?

#### 5. PUBLIC SECTOR JOINT WORKING, USE OF CENTRAL PURCHASING ARRANGEMENTS AND FRAMEWORKS

- 5.1. In the event that recourse to a *central purchasing arrangement* or *framework agreement* is being considered or any form of joint working with other public sector bodies, then *Legal Services* must be consulted at an early stage. This is to ensure that the proposed arrangements have been established in accordance with the relevant procurement regulations and are available to be used by the *Organisation* in the way intended.
- 5.2. The *Organisation* fulfils its obligations under these Rules when it acquires supplies or services from a central purchasing body offering the centralised purchasing activity. The *Organisation* also fulfils its obligations where it acquires works, supplies or services by:

- a. using contracts awarded by the central purchasing body;
- b. using dynamic purchasing systems operated by the central purchasing body; or
- c. by using a *framework agreement* concluded by the central purchasing body offering the centralised purchasing activity.

5.3. Call-off contracts entered into under a *framework agreement* must be awarded under the terms set out in the *framework agreement*. These may include a mini-competition between those contractors on the framework or the award of a contract to one contractor without re-opening competition. Where the *framework agreement* terms for call-offs are complied with then competitive quotations or tenders are not required under these *Rules*.

5.4. Where the Council is procuring through joint working with other contracting authorities, the procurement must be compliant with these *Rules* or those of the lead authority. In so far as that is the case and the process followed is compliant with the public procurement regulations, then the process will be deemed to comply with these *Rules*.

5.5. It should be noted that *Constructionline* is not a framework agreement.

## 6. SUMMARY OF THRESHOLDS AND PROCEDURES REQUIRED

6.1. The estimated value of a contract should be calculated at the moment at which the procurement procedure is to be commenced. The Public Contract Regulations 2015 and Utilities Contracts Regulations 2006 contain detailed rules as to how the estimated value of a contract is calculated and when the value of one contract has to be aggregated with contracts awarded by the Council as a whole to see whether it is over the threshold for the Regulations to apply. Guidance is attached at Annexure 2 but further clarification should be sought from *Legal Services* or the *Procurement Team* if needed.

<b>Estimated Value of the Contract (excluding VAT)</b>  <b>Service and Supplies</b>	<b>Estimated Value of the Contract (excluding VAT)</b>  <b>Works</b>	<b>Minimum Requirement</b>	<b>Advertisement</b>
Contracts Below [£25,000]  See Para. 8 for details	Contracts Below [£25,000]  See Para. 8 for details	Obligation to consider best value but no obligation to go out for a particular number of quotes. However consideration should always be given to whether three quotes	No requirement to advertise.



<b>Estimated Value of the Contract (excluding VAT)</b>  <b>Service and Supplies</b>	<b>Estimated Value of the Contract (excluding VAT)</b>  <b>Works</b>	<b>Minimum Requirement</b>	<b>Advertisement</b>
		should be sought. <i>Officer</i> discretion. Reason for direct award should be agreed with <i>Accountable Officer</i> and recorded by <i>Designated Officer</i> .	<b>IF</b> advertised then <b>NO</b> requirement to also advertise in <i>Contracts Finder</i> .
Contracts exceeding [£25,000] and not exceeding [£100,000]  See Para. 9 for details	[£25,000] and not exceeding [£1,000,000]  See Para. 9 for details	Seek minimum three written quotes.  Must use <i>constructionline</i> to select those to be invited to quote for Works contracts unless waiver given.	No requirement to advertise.  <b>IF</b> advertised then <b>MUST</b> also advertise in <i>Contracts Finder</i> .
Contracts exceeding [£100,000] but under <i>Applicable Threshold Value</i> (EU)  See Para. 10 for details	Contracts exceeding [£1,000,000] but under <i>Applicable Threshold Value</i> (EU)  See Para. 10 for details	Seek minimum four written tenders.  No pre-selection stage for services/supplies contracts (so number of contractors invited to tender cannot be limited in this way) but suitability questions can be asked.  Use of <i>constructionline</i> optional for PQQ process for works contracts.	Requirement to advertise in all cases.  Advertise in <i>Contracts Finder</i> in all cases.
Above <i>Applicable Threshold Value</i> (EU)  See Para. 11 for details	Above <i>Applicable Threshold Value</i> (EU)  See Para. 11 for details	EU regulated process to be followed unless an <i>exception</i> or <i>waiver</i> applies. Consult <i>Legal Services or Procurement Team</i> .	Requirement to advertise in all cases.  Advertise in <i>Contracts Finder</i> .

Estimated Value of the Contract (excluding VAT)	Estimated Value of the Contract (excluding VAT)	Minimum Requirement	Advertisement
Service and Supplies	Works		
Where appropriate, any contractor properly nominated under section 20 of the Landlord and Tenant Act 1985 must also be invited to tender.			

## 7. SUMMARY OF ADVERTISEMENT RULES AND REQUIREMENTS

- 7.1. Where a proposed contract meets or exceeds European Union thresholds, (*Applicable Threshold Value*) a public contract notice or a Prior Indicative Notice (depending on the procedure) must be placed in the Official Journal of the European Union (OJEU) if and when required under the applicable Regulations
- 7.2. Any *national advert* should not be published until the OJEU advert has been published or after 48 hours of confirmation of receipt by OJEU of the notice.
- 7.3. Where procurement is commenced through a contract notice to the OJEU then the *Designated Officer* must also ensure that the contract is advertised on *Contracts Finder* within 24 hours of the time when the *Organisation* can publish a national advert (see above).
- 7.4. Where the *Organisation* chooses to advertise an opportunity to be awarded a below threshold contract (regardless of how specific that opportunity is) to which the Public Contracts Regulations 2015 would apply if it were above the *Applicable Threshold Value*, then if the estimated value of the contract opportunity is £25,000 or more, the *Designated Officer* must also advertise the opportunity through *Contracts Finder*. The information must be published in *Contracts Finder* within 24 hours of the time when it first advertises the award opportunity in any other way.
- 7.5. The contract is not 'advertised' for the purpose of triggering a requirement to advertise in *Contracts Finder* if the invitation to quote is only made available to a number of particular contractors who have been selected for that purpose either ad hoc or by virtue of their membership in some closed category such as a framework agreement.
- 7.6. *Officers* should also assess the need for wider advertisement in:
- a. relevant newspapers;
  - b. any national or trade journal applicable to the industry.

## 8. CONTRACTS BELOW [£25,000]

- 8.1. The *Designated Officer* has an obligation to consider securing best value for these contracts, but is under no obligation to go out for a particular number of quotes. However consideration should always be given to whether three quotes should be sought.
- 8.2. Where a decision is taken not to seek multiple quotes in any particular situation then the reason for direct award should be agreed with *Accountable Officer* and recorded by the *Designated Officer*.

## 9. **CONTRACTS EXCEEDING [£25,000] AND NOT EXCEEDING [£100,000] OR [£1,000,000] FOR CONTRACTS FOR WORKS**

- 9.1. Where the appropriate *Designated Officer* estimates a contract is likely to fall within this category they shall, wherever practicable, obtain at least three competitive quotations in writing. Where practicable, at least one quote shall come from a local supplier.
- 9.2. It is not the intention that there should be any advertisement when obtaining quotations, but it should be noted that where the value of the contract is estimated to be £25,000 or more and the *Organisation* chooses to advertise then the requirements set out in paragraph 7.4 must be observed.
- 9.3. The procurement regulations provide that you cannot have pre-selection stage for a contract above £25,000 but below the *Applicable Threshold Value*. For this purpose only, the threshold that applies to works contracts is the same as for services/supplies contracts.
- 9.4. An invitation to supply a quotation shall, as a minimum, comprise the following information (which may, at the discretion of the *Designated Officer*, be bound within a composite letter):
  - a. Instructions for return.
  - b. The basis on which a quotation will be assessed and on which the winning quotation will be accepted.
  - c. Terms and conditions under which the works, goods or services are to be provided.
  - d. Specification of the works, goods or services to be provided.
  - e. Pricing schedule or similar from which the bid price can be readily ascertained.
  - f. A statement that the Council is under no obligation to accept any quotation.
- 9.5. The *Designated Officer* must keep a record of:
  - a. All contractors that were asked to provide a quotation
  - b. The reasons why those particular contractors were selected to provide a quotation.

- 9.6. Where practicable, quotations shall be returned through the electronic tendering system of the *Organisation*. Where this is not possible contractors should be asked to provide quotations by a specified date in plain envelopes/packages which have been securely sealed and marked with the word "Quotation" followed by the contract or subject to which it relates. Telephone quotes are not to be considered. Email quotes may only be accepted if a separate email account is set up for the purpose of the quotation which cannot be accessed until after the deadline for return has passed.
- 9.7. Quotations should not be accessed or opened until after the deadline for return has passed. They should be opened in the presence of the *Designated Officer* plus one other *Officer*. The *Designated Officer* must record the following details on the Quotation Control Form or within the electronic tendering system:
- a. The name of the company.
  - b. The value of the quote.
  - c. The date the quote was received.
  - d. The form in which it was received from the company.
  - e. The recommendation as to which quote if any to accept.
- 9.8. The *Designated Officer* shall seek the written authority of the *Accountable Officer* to authorise the recommendation by the *Designated Officer*. All documents relating to the quotation exercise shall be provided to the *Accountable Officer* by the *Designated Officer*. The *Accountable Officer* shall certify the acceptance of the quote on the Quotation Control Form or within the electronic tendering system. The Quotation Control Form can be found in the Contract Manual.
- 9.9. A quotation may be accepted on the basis on which it was indicated in the invitation to quote that the winning quotation would be identified i.e. either:
- a. The lowest price quotation; or
  - b. The highest scoring quotation where evaluated against acceptance criteria previously disclosed to those participating in the competition.

No quotation which exceeds the approved budget provision shall be accepted until approval to further expenditure has been obtained.

## **10. CONTRACTS EXCEEDING [£100,000], OR [£1,000,000] IN CASE OF A CONTRACT FOR WORKS, BUT UNDER APPLICABLE THRESHOLD VALUE (EU)**

- 10.1. All tendering procedures from planning to contract award and signature must be undertaken in a manner so as to ensure:
- a. Sufficient time is given to plan and run the process;
  - b. Equal opportunity and equal treatment;
  - c. Openness and transparency;
  - d. Probity; and
  - e. Outcomes that deliver sustainability, efficiency and whole life costing.

- 10.2. Contract opportunities should be advertised by public notice, which may take the form of a notice or advertisement on a readily accessible website or other electronic media and/ or in the press, relevant trade journals or Official Journal of the EU (as appropriate). The *Designated Officer* may choose to place one or more public notices. Where the *Organisation* advertises an opportunity to be awarded a below *Applicable Threshold Value* (regardless of how specific that opportunity is) to which the Public Contracts Regulations 2015 would apply if it were above the *Applicable Threshold Value*, then if the estimated value of the contract opportunity is £25,000 or more, the *Designated Officer* must also advertise the opportunity through *Contracts Finder*. The information must be published in *Contracts Finder* within 24 hours of the time when it first advertises the award opportunity in any other way.
- 10.3. It should be noted that the procurement regulations provide that you cannot have pre-selection stage for a contract above £25,000 but below the *Applicable Threshold Value*. For this purpose only, the threshold that applies to works contracts is the same as for services/supplies contracts. It is possible to ask suitability questions and further guidance on this is in the Contract Manual.
- 10.4. Were a works contract is above the *Applicable Threshold Value* the pre-selection stage can use the Crown Commercial Services standard Pre Qualification Questionnaire or the industry-standard *PAS 91* for public contracts for Works. Constructionline PQQs are aligned to *PAS 91* and so can be used for this purpose.
- 10.5. The invitation to tender shall (unless otherwise agreed by *Legal Services*) state that no tender will be considered unless it is received by the date and time stipulated in the invitation to tender. No tender delivered in contravention of this clause shall be considered.
- 10.6. An invitation to tender shall (unless otherwise agreed by *Legal Services*), as a minimum, comprise the documents listed below:
- a. Form of tender, which must include a statement that the *Organisation* is under no obligation to accept any tender
  - b. Certificate that the tender is bona fide
  - c. Instructions to tenderers, including notification that where electronic means are not used that no tender will be considered unless it is enclosed in a sealed envelope or container which bears the word "Tender" followed by the subject to which it relates to but no other name or mark indicating the sender.
  - d. Form of contract including contract conditions.
  - e. Specification of the works, goods or services to be provided
  - f. Bill of quantities or pricing schedule (as necessary)
  - g. Award criteria for the selection of the successful tender.

## 11. ABOVE APPLICABLE THRESHOLD VALUE (EU) CONTRACTS

- 11.1. Whilst the rules set out in clause 10 also apply to EU procurements, additional steps must also be taken in accordance with the law and relevant guidance. For this reason, additional time must be allowed at an early stage of project planning
- 11.2. Where the EU Procurement Rules apply, the *Accountable or Designated Officer* must consult with *Legal Services* in the very early stages of project planning, to determine the appropriate method of conducting the purchase and to ensure the correct procedures are followed.
- 11.3. Where EU Procurement Rules apply to a contract there are four main procedures available. These are the open, restricted, competitive dialogue procedures and competitive procedure with negotiation.
- 11.4. The *Accountable or Designated Officer* must consider the minimum time frames which apply to EU procurement projects and consult *Legal Services* at the outset.
- 11.5. Where the Public Contract Regulations 2015 or Utilities Contract Regulations 2006 require a prior indicative notice (PIN) or public contract notice to be placed in the Official Journal of the European Union (OJEU) then any *national advert* should not be published until the OJEU advert has been published or after 48 hours of confirmation of receipt by OJEU of the notice. Where a procurement exercise is commenced through a contract notice to the OJEU then the *Designated Officer* must also ensure that the contract is advertised on *Contracts Finder* within 24 hours of the time when the *Organisation* can publish a *national advert*.

## 12. EXTENSIONS AND CHANGES TO EXISTING CONTRACTS

- 12.1. No variation or extension must be made to a contract without an agreed budget.
- 12.2. Variations to existing contracts will normally be permitted **only** where all of the following criteria are met:
- a) The change is not so materially different from the scope of the original contract that a new procurement exercise needs to be run having regard to the provisions in Regulation 72 of the Public Contracts Regulations 2015;
  - b) Value for money can be demonstrated; and
  - c) The extension is approved by *Legal Services*.
- 12.3. Delegated authority to authorise extensions and variations are as follows:
- a) any extension or variation to a contract resulting in an increase of more than 10% of its total value or duration, to a maximum value of £50,000, must be authorised by the relevant Chief Officer;
  - b) any extension or variation resulting in an increase of more than £50,000 must be authorised by the relevant Cabinet Portfolio Holder;
  - c) where the extension or variation would lead to a significant change in the level of service or have cost implications for future years outside of the *Organisation's* overall budget framework, *Organisation* approval must be given.

12.4. In **exceptional** and/or **extremely urgent** circumstances, extensions may be granted by the *Chief Officer* after consultation with the *Leader of the Council*. Any necessary resulting action must be reported to the next meeting of the *Cabinet* and if necessary, *Council*.

12.5. Where any variation or extension results in a need for budget virement, this will be subject to the virement provisions in the Financial Procedure Rules.

### 13. RECEIPT AND OPENING OF TENDERS

13.1. *Officers* should ensure that contractors who may tender are aware of the rules relating to the tendering process set out.

13.2. A tender should only be considered if received in accordance with the *Organisation's* tendering protocols set out in the invitation to tender or where otherwise agreed in consultation with *Legal Services*.

13.3. Where not submitted electronically through the approved procurement portal, the *Accountable Officer* or his or her nominated officer will keep the tenders securely. Tenders, however received, must not be opened or accessed until expiry of the time limit for submission and the time appointed for their opening.

13.4. Tenders must be opened in a fair and secure fashion in the presence of the *Designated Officer* and at least one other officer. The presence may be virtual where the electronic approved procurement portal is used.

13.5. The *Designated Officer* must record the following tender details:

- a) The names of those present during the Tender opening
- b) The date and time the Tenders were opened
- c) The name and estimated value of the contract.
- d) The *Accountable Officer* instigating the contract.
- e) The closing date and time for tenders to be received.
- f) The name of each invited tenderer.
- g) The tender amount. In the event of the value of the tender being unclear e.g. dependent upon further calculation or based on a schedule of rates, the Tender amount should be recorded as "To be assessed".
- h) In the event that an invited tenderer fails to tender, the tender sum should be recorded as "No Tender Received".
- i) With regard to tenders received after the specified date and time, the tender sum should be recorded as "Received Late" with the actual date and time received.

13.6. The *Designated Officer* must retain a copy of each tender in accordance with the *Organisations* Document Retention & Disposal Schedule.

13.7. Where information or documentation to be submitted by a tenderer is or appears to be incomplete or erroneous, or where specific documents are missing, the *Organisation* may request the tenders concerned to submit, supplement, clarify or complete the relevant information or documentation within an appropriate time limit,

provided that such requests are made in compliance with the principles of equal treatment and transparency.

- 13.8. This will generally mean that a request must not in reality lead to the submission of a new tender. In particular it relates to the identification of any obvious errors, ambiguity and incompleteness which might prevent the *Organisation* from being able to undertake the evaluation process and in particular those which are capable of simple explanation and can be easily resolved.
- 13.9. A request for clarification should not appear unduly to have favoured or disadvantaged the tenderer or tenderers to which the request was addressed.
- 13.10. A request for clarification of a tender should be made only after the *Organisation* has looked at all the tenders. Furthermore, that request must be sent in an equivalent manner to all undertakings which are in the same situation, unless there is an objectively verifiable ground capable of justifying different treatment of the tenderers in that regard, in particular where the tender must, in any event, in the light of other factors, be rejected.
- 13.11. In addition, a request should relate to all sections of the tender which are imprecise or which do not meet the technical requirements of the tender specifications if the *Organisation* wishes to raise queries or reject the tender because of them.
- 13.12. The *Accountable Officer* must accept a tender on the basis on which it was indicated in the invitation to tender that the winning tender would be identified i.e. either:
- a) The lowest priced tender; or
  - b) The tender that scores highest when evaluated against the acceptance criteria previously set by the *Accountable* and disclosed to those participating in the competition.
- 13.13. A tender that is not the lowest priced or highest scoring tender can only be accepted by the *Cabinet*, in respect of those functions that are the functions of *Cabinet*, after considering a report by the *Accountable Officer*.
- 13.14. Tenders exceeding the approved estimate may only be accepted once approval to further expenditure is obtained. This may be approved by the relevant budget holder within delegated limits. Otherwise, approval by *Cabinet* or *Council* in accordance with the Constitution is required.

## 14. CONTRACT AWARD

- 14.1. *Designated Officers* or *Accountable Officers* have delegated authority to authorise contracts within their approved budget.
- 14.2. Contracts with a value greater than that allocated within the relevant budget must be authorised by *Cabinet*.
- 14.3. Any contract over £75,000 must be authorised by an *Accountable Officer* and executed as a deed or under seal. The Council seal is held by *Legal Services* and will only be used once *Legal Services* receives the necessary authorisation from the *Accountable Officer* to bind the *Organisation* to the contract.



14.4. The award of a contract over £25,000 (including under a framework agreement) must be published in accordance with the Public Contracts Regulations 2015 and in *Contracts Finder*. Awards of contracts under the UCR 2006 must be published in accordance with those Regulations.

## 15. FINANCIAL CHECKS

15.1. In the case of contracts to be awarded which either have an estimated value in excess of £100,000, or where the *Accountable Officer* considers that the failure of the contractor to perform would result in a high risk to the *Organisation*, the *Accountable Officer* must request that the *Chief Finance Officer* carry out a financial status check on all applicants.

15.2. The financial status check will take into account the financial viability of the applicant, their ability to deliver the contract in financial terms and the current level of contractual relationship with the applicant.

15.3. The *Accountable Officer* may authorise a tender to be invited from a contractor whose financial status is not favourable, where to do so is necessary in order to secure a bid for the works, supplies or services and the risks associated with contract failure have been assessed and in his/her opinion are within acceptable limits. In such an event, the *Accountable Officer* must justify such a decision and maintain all records accordingly.

15.4. The financial checks will be carried out in compliance with the provisions of the Public Contracts Regulations 2015 (in particular Regulations 107 and 111 and associated guidance) depending on the value and type of public contract.

## 16. CONTRACT TERMS

16.1. **Every contract that exceeds £100,000 in value or contains a potentially significant risk must be in writing in a form approved by *Legal Services*.**

16.2. Note: *Legal Services* may also determine the format of any contract for a lesser value.

16.3. Other than in exceptional circumstances, and where the written consent of *Legal Services* has first been obtained, all contracts must be concluded formally in writing **before** the supply of any goods, service or the commencement of any work. The issue of an award letter or letter of intent is not acceptable for this purpose.

16.4. Every contract must include details of:

- a) The works, goods or services to be provided, supplied or carried out;
- b) The price to be paid, with a statement of discounts or deductions;
- c) The time or times within which the contract is to be performed;

- d) Where appropriate, provision for the payment of liquidated damages where the contractor fails to complete the contract within specified timescales;
- e) A clause empowering the *Organisation* to cancel the contract in circumstances of corruption and/ or collusion and to recover any loss resulting from such cancellation;
- f) A clause requiring appropriate insurance cover;
- g) Where appropriate a requirement for the provision of a bond, parent company guarantee or other sufficient security for due performance of the contract. Where the contract value exceeds £1,000,000 the contract shall contain such a provision unless the *Chief Finance Officer* determines otherwise;
- h) Specific provision as to sub contracting where appropriate;
- i) A clause enabling termination in accordance with Regulation 73 of the Public Contract Regulations 2015 if it is above the *Applicable Threshold Value*; and
- j) A clause containing suitable provisions (having regard to guidance issued by the Minister for the Cabinet Office) to comply with the requirements of Regulation 113 of the Public Contract Regulations 2015 in relation to the payment of undisputed invoices within 30 days to contractors and sub-contractors.

**16.5. The Safeguarding of Children and Vulnerable Adults and the relevance of other Council policies noted in the Corporate Procurement Policy.**

16.6. In any contract where a contractor or subcontractor will have contact with members of the public, the *Designated Officer* is responsible for ensuring that it is a condition of the contract that the contractor, or subcontractor, will comply with the *Organisations* 'Safeguarding Children and Vulnerable Adults Policy' ('Safeguarding Children and Vulnerable Adults Policy'). The *Designated Officer* is responsible for ensuring that the contractor has a copy, or has access to a copy, of this policy.

16.7. These Rules must moreover be read in conjunction with the *Organisations* Corporate Procurement Policy. This Policy provides details of those other *Organisation* policies (such as those relating to Equalities and other supplier responsibilities) which ensure that all procurement activity reflects the *Organisation's* corporate standards and objectives.

## 17. RECORDS

17.1. The following records must be kept by the *Designated Officer*:

- a. forms of tender received from all tenderers
- b. all documentation from the three highest scoring tenderers until the end of the contract when the second and third tenderers documentation can be destroyed
- c. communication with unsuccessful tenderers
- d. the award criteria
- e. for above threshold contracts the information required for reporting and documenting in Regulation 84 of the Public Contracts Regulations 2015 including why an above threshold contract has not been divided into Lots. For below threshold contracts information may be required by the Cabinet office for reports to the Commission.

17.2. The documents detailed must be kept for at least six years after the end of the contract, or as specified by any Document Retention Policy approved by the *Organisation*.

## SECTION 2 SELLING

### 18. DISPOSAL OF INTERESTS IN LAND

18.1. No sale or lease by the *Organisation* of land (where the value exceeds £50,000 or £25,000 if amenity land; or in the case of a lease, the estimated rent exceeds £25,000 per annum) shall be made except after auction or the invitation of tenders or expressions of interest following public advertisement, in at least one newspaper circulating in the District (or other appropriate means of advertising), unless specifically authorised by *Cabinet*. This shall not apply to the renewal of a lease made pursuant to the Landlord and Tenant Act 1954 or to the sale of *Organisation* dwellings under the right to buy scheme.

18.1A No sale or lease by Lewes District Council of land where the value exceeds the limits referred to in rule 18.1 above shall be made except after consulting with the Member(s) for the ward affected and, where the land falls within the area of a town or parish council, the clerk of that council.

18.2. The *Designated Officer* shall record the power under which land or an interest in land is disposed which is likely to be one of the following:

18.2.1 Local Government Act 1972 – Section 123 Disposal power in relation to land not held for planning or housing purposes

18.2.2 Town and Country Planning Act 1990 - Section 233 Disposal power in relation to land held for planning purposes

18.2.3 Housing Act 1985 – Section 32 Disposal power in relation to land held for purposes of Part II of the Housing Act 1985

18.3. The disposal of land or interests in land shall comply with the rules on State Aid.

18.4. Consideration should be given to the circumstances in which a public contract may be created through a disposal of land. *Legal Services* and/or guidance contained in the Contract Manual should be consulted.

### 19. DISPOSAL OF ASSETS

19.1. Assets for disposal must be sent to public auction except where better value for money is likely to be obtained by inviting quotations or tenders. (These may be invited by advertising on the *Organisation's* internet site or other appropriate means of advertisement). Quotations or tenders will not be required where an expert valuation has confirmed that an alternative method of disposal (such as where there is a *Special Purchaser*) will secure market or above market value. The method of disposal of surplus or obsolete assets other than land must be formally agreed with the *Chief Finance Officer*.

### 20. INCOME GENERATING CONTRACTS

20.1. The *Designated Officer* shall consult with *Legal Services* in relation to contracts where the *Organisation* is proposing to generate an income or receive a payment. Such contracts may include joint venture arrangements or concessions contracts. A concession contracts may include contracts for the provision of works and services where the consideration under the contract includes the right to exploit the works or services to be provided. These may be governed by the public procurement rules.

20.2. Matters to consider will include:

- 20.2.1. Powers,
- 20.2.2. State aid,
- 20.2.3. Best value.

## 21. PURCHASE OF INTERESTS IN LAND

21.1. The *Designated Officer* shall record the power under which land is purchased.

21.2. The purchase of land shall comply with the rules on State Aid.

## DEFINITIONS

### 22. DEFINITIONS

Word or Phrase	Meaning
<b>Accountable Officer</b>	For EBC and LDC this means the Chief Executive or Senior Head of Service responsible for the particular project. For EHL this means the Chief Executive or Managing Director as appointed by the Board.
<b>Applicable Threshold Value</b>	The threshold in relation to the estimated value of the contract as set out in the relevant procurement Directive above which an OJEU process must be followed. For the <i>Organisations</i> these are currently:  Works: £4,322,012  Supplies/Services: £172,514  Schedule 3 service contracts for social and other specific services: £625,050  These are reviewed every 2 years to convert the Euro figures in to GBP. The next update is due 1 January 2016. The GBP values can go down.
<b>Cabinet</b>	For EBC and LDC this is the Cabinet of the Council. For EHL this is (1) the Board of Directors appointed in accordance with the

Word or Phrase	Meaning
	Articles and Memorandum of Association or (2) a Committee, where the matter relates to a function delegated to that Committee in both cases after considering a report from one or more of the Executives.
<b>Cabinet Portfolio Holder</b>	For EBC/LDC the member of the Cabinet designated as the lead member for the relevant function or service and if none the Leader of the Cabinet. For EHL any of the Executives as appropriate to the matter being considered.
<b>central purchasing arrangement</b>	This is an arrangement involving a “central purchasing body”. A “central purchasing body” means a contracting authority which provides centralised purchasing activities and which may also provide ancillary purchasing activities. Contracting authorities may acquire supplies, services, or works through a central purchasing body offering a centralised purchasing activity.
<b>Chief Finance Officer</b>	For EBC and LDC the person designated as the responsible officer under section 151 of the Local Government Act 1972; for EHL the Director Finance and Corporate Services.
<b>Chief Officer</b>	For EBC and LDC these are the Chief Executive, the Deputy Chief Executive, the Directors, the Senior Heads, the Monitoring Officer and the Chief Finance Officer.  For EHL these are the Executives.
<b>Code of Conduct</b>	Employee and/or staff code of conduct or the Code of Conduct for Councillors, as applicable.
<b>Constructionline</b>	Constructionline is a national register of pre qualified local and national construction and construction related contractors and consultants. It is owned by Capita PLC and endorsed by the Department of Business Enterprise and Regulatory Reform (formerly the DTI). The Council uses this register as its selection method for construction related contracts. Firms or contractors who are not registered on Constructionline can apply to join it. Information on how to register, application rules and forms can be found at <a href="http://www.constructionline.co.uk">www.constructionline.co.uk</a>
<b>Contracts Finder</b>	Contracts Finder is an electronic procurement portal and is the responsibility of the Crown Commercial Service (CCS) and the new Contracts Finder portal can be found at <a href="http://www.gov.uk/contracts-finder">www.gov.uk/contracts-finder</a> . The Council has issued guidance notes on how to use the portal.

Word or Phrase	Meaning
<b>Council</b>	For EBC and LDC this is the Council meeting. For EHL this is the Board of Directors.
<b>Designated Officer</b>	The Officer designated by the Chief Officer to deal with the procurement process in question.
<b>EBC</b>	Eastbourne Borough Council.
<b>EHL</b>	Eastbourne Homes Limited.
<b>exception</b>	A circumstance set out in paragraph 2.3 (Exceptions) of the Contract Procedure Rules.
<b>Executives</b>	For EHL this means the Chief Executive or Managing Director and the Services Directors (being the Director of Finance and Corporate Services and the Director of Operations).
<b>Financial Procedure Rules</b>	For EBC/LDC these are the Financial Procedure Rule that form part of the Constitution. For EHL these are the Financial Regulations.
<b>Framework Agreement</b>	An agreement between one or more contracting authorities and one or more economic entities, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged.
<b>LDC</b>	Lewes District Council.
<b>Leader of the Council</b>	For EBC and LDC this is the Leader of the Council as appointed under their respective Constitutions. For EHL this shall be the Chairman of the Board.
<b>Legal Services</b>	for LDC this means the Council's senior legal officer or a specialist lawyer in that officer's team; For EBC/EHL that means the Lawyer to the Council or a specialist lawyer in that officer's team.
<b>Monitoring Officer</b>	For EBC and LDC the person designated as the responsible officer under section 5 of the Local Government and Housing Act 1989; for EHL the Governance & Compliance Manager/Company Secretary.
<b>national advert</b>	An advertisement of the opportunity other than in OJEU.

Word or Phrase	Meaning
<b>Officer or Officers</b>	Any member of staff employed by the <i>Organisation</i> ; any person seconded to or made available to the <i>Organisation</i> ; any agent or consultant acting for the <i>Organisation</i> ; and in the case of EHL, any director of the company.
<b>Organisation</b>	Eastbourne Borough Council (“EBC”); Lewes District Council (“LDC”); Eastbourne Homes Limited (“EHL”).
<b>PAS 91</b>	PAS 91 is a standardised pre-qualification questionnaire which has been developed to reduce the need for suppliers to complete a variety of different pre-qualification questionnaires for different, and in some cases, the same clients. A copy is attached to the Contract Manual and can also be downloaded at: <a href="http://shop.bsigroup.com/en/Navigate-by/PAS/PAS-91-2013/">http://shop.bsigroup.com/en/Navigate-by/PAS/PAS-91-2013/</a>
<b>PCR 2015</b>	Public Contracts Regulations 2015
<b>Procurement Team</b>	the Officers (if any) with designated responsibility in the relevant <i>Organisation</i> for advising on procurement processes
<b>Rules</b>	The Contract Procedure Rules.
<b>Schedule 3 Service Contracts</b>	Contracts listed in Schedule 3 of the PCR 2015 for social and other specific services.
<b>Special Purchaser</b>	A particular buyer for whom a particular asset has special value (i.e. an amount that reflects particular attributes of an asset that are only of value to a <i>Special Purchaser</i> ) because of advantages arising from its ownership that would not be available to other buyers in a market.
<b>Treaty</b>	Treaty on the Functioning of the European Union
<b>UCR 2006</b>	Utilities Contracts Regulations 2006
<b>waiver</b>	A circumstance set out in paragraph 2.4 (Waiver) of the Contract Procedure Rules.



## 1. ANNEXURE ONE: Councillor Protocol for Procurement

### COUNCILLOR PROTOCOL FOR PROCUREMENT

#### Introduction

- 1** The Council's governance arrangements provide for procurement to be managed in accordance with Contract Procedure Rules, and for Councillors to be guided in their work by the Protocol on Member/Officer Relations and the Code of Conduct for Members of the Council. The Code of Conduct for Members includes the need for Councillors to register their interests in any contract with the Council, but in other respects these documents make only limited reference to the role of Councillors in the specialist area of procurement.
- 2** This protocol is to guide Councillors in procurement procedures and to minimise the risk of any non compliance with UK and EU legislation.

#### Best Practice Guidance

- 3** A Councillor must not arrange or participate in any meeting or other form of communication with tenderers or potential tenderers for Council contracts that has not been arranged by Council officers.
- 4** A Councillor who is or will be involved in the process that leads to the award of any Council contract must not discuss the matter if they are approached by or on behalf of anyone interested in obtaining that contract.
- 5** A Councillor, who is a representative of an organisation that tenders or quotes for Council work, may not take part in the process that leads to the award of any contract in that area of service or be involved in the subsequent administration of that contract.
- 6** If a Councillor is a representative of an organisation that tenders or quotes for Council work, the organisation can only be awarded Council work through a process of open competition under Contract Procedure Rules.
- 7** The Council will not seek tenders or quotes from an organisation, or place work with an organisation using a schedule of rates or any call off arrangement, if a Councillor who is the Cabinet Member for that area of the Council's service is a representative of that organisation.
- 8** A Councillor must not seek to influence the procurement decisions of officers or do anything that compromises or is likely to compromise the impartiality of officers.
- 9** A Councillor must not pressurise any officer to change his/her professional opinion on procurement issues or give direct instructions to officers.

- 10** A Councillor must not take a proactive part to represent or in any other way advocate on behalf of any tenderer or contractor.
- 11** Any Councillor, who is a representative of an organisation that tenders or quotes for Council work, must declare that interest in the Register of Interests.
- 12** Confidential information relating to any tender, tenderer or prospective tenderer must remain confidential, and a Councillor must ensure that no confidential information is disclosed to unauthorised persons or organisations.

A breach of the above guidance may constitute, depending on the circumstances, a breach of the Code of Conduct for Members.

## 2. ANNEXURE TWO: GUIDANCE ON CALCULATING ESTIMATED CONTRACT VALUE

### The Calculation

Calculation of the estimated value of a contract must be based on the total amount payable (excluding VAT). This has to be undertaken at the moment at which the call for competition is sent, or if no call for competition then at the moment at which the Council intends to commence an alternative process to select suppliers e.g. by seeking quotations.

The choice of method used to calculate the estimated value must not be made with the intention of excluding it from the public procurement regulations.

A procurement exercise must not be subdivided with the effect of preventing it from falling within the public procurement regulations unless justified by objective reasons.

The rules require that where there are separate operational units within the Council, the total estimated value of the works, supplies or services for all those units is taken into account when calculating the estimated value. This means the majority of procurements undertaken will need to take account of the overall Council spend.

However where a unit is independently responsible for its procurement or certain categories of its procurement, the values may be estimated at the level of the unit in question. This will apply where the separate operational unit independently runs the procurement procedures and makes the buying decisions, has a separate budget line at its disposal for the procurements concerned, concludes the contract independently and finances it from a budget which it has at its disposal. A subdivision is not justified where the Council merely organises a procurement exercise in a decentralised way.

The value must be estimated by the Council including:

- any form of option in relation to the contract (e.g. where there is an option to include possible additional services)
- any renewals that are provided for in the contract
- any prizes or payments to candidates or tenderers
- any payments that will be made by third parties to the supplier as a result of undertaking the contract
- in the case of insurance services, the premium payable and other forms of remuneration

- in the case of banking and other financial services, the fees, commissions payable, interest and other forms of remuneration
- in the case of design contracts, the fees, commissions payable and other forms of remuneration
- where the contract is or may be divided into lots, account has to be taken of the total estimated value of those lots.
- in relation to framework agreements and dynamic purchasing systems, the value to be taken into consideration is the total for all the contracts envisaged during the term of the framework agreement or system
- in relation to innovation partnerships, the value to be considered is the maximum estimated value of the research and development activities to take place during all stages of the envisaged partnership as well as the supplies and services or works to be developed and procured at the end of the envisaged partnership
- in the case of works contracts, the calculation shall include both the cost of the work and the total estimated supplies and services that are made available to the contractor by the Council where they are necessary for executing the works

### **Specific Rules for Supply Contracts**

In relation to supply contracts relating to the leasing, hire, rental or hire purchase of products, the value to be taken as a basis for calculating the estimated contract value is:

- in the case of fixed-term contracts, where that term is less than or equal to 12 months, the total estimated value for the term of the contract, or, where the term of the contract is greater than 12 months, the total value including the estimated residual value;
- in the case of public contracts without a fixed term or the term of which cannot be defined, the monthly value multiplied by 48.

### **Specific Rules for Services Contracts**

In relation to service contracts which do not indicate a total price, the basis for calculating the estimated contract value is:

- in the case of fixed-term contracts, where that term is less than or equal to 48 months: the total value for their full term;
- in the case of contracts without a fixed term or with a term greater than 48 months: the monthly value multiplied by 48.

## **Aggregation Rules for Supplies and Services**

In the case of supplies and services contracts which are regular in nature or which are intended to be renewed within a given period, the calculation of the estimated value of every contract must be based on one of the following:

- the total actual value of the successive contracts of the same type awarded during the preceding 12 months or financial year adjusted, where possible, to take account of the changes in quantity or value which would occur in the course of the 12 months following the initial contract; or
- the total estimated value of the successive contracts awarded during the 12 months following the first delivery, or during the financial year where that is longer than 12 months.

For this purpose, the notion of similar supplies means products which are intended for identical or similar uses, such as supplies of a range of foods or of various items of office furniture. Typically, a supplier active in the field concerned would be likely to carry such supplies as part of his normal product range. So for example the Council will need a certain amount of printer paper over the year, and it knows from the previous year it spent over the Applicable Threshold Value for that supply. This means that the even if it wanted to buy one packet at a time, that single purchase would have to be treated as an above threshold purchase subject to the full procurement rules. The same concept applies to services contracts.

### **Lots and Small Lots**

Where the contract is or may be divided into lots and the total value of those lots exceeds the Applicable Threshold Value then the full (OJEU) procurement rules apply to awarding a contract for each lot.

The Council may however award contracts for individual lots without applying the full procurement procedures (but under its own CPRs) provided the estimated value of the lot concerned is less than:

- £66,672 for supplies or services
- £833,400 for works

Provided the aggregate value of the lots awarded does not exceed 20% of the aggregate value of all the lots into which the proposed work, services or supplies has been divided.



**Agenda Item No: 7**

**Report  
No: 16/16**

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

**Report To: Audit and Standards Committee Date: 25 January 2016**

**Ward(s) Affected: All**

**Report By: Head of Audit, Fraud and Procurement**

**Contact Officer**

**Name: David Heath**

**Post Title: Head of Audit, Fraud and Procurement**

**E-mail: [David.Heath@lewes.gov.uk](mailto:David.Heath@lewes.gov.uk)**

**Tel no: 01273 484157**

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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 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 nine 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 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 2015/16

4.1 This section of the report summarises the work undertaken by Internal Audit during the first nine months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015. 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 479 audit days have been undertaken compared to the 504 planned. The variance of 25 days is mainly caused by the vacancy in the Senior Auditor post and HAFP's recent focus on procurement and governance issues (see 4.9 and 4.10). The variance is likely to become larger as the staff changes outlined at paragraphs 4.3 and 4.4 take effect. The impact of the staff changes and the other issues that reduce the time available for audit work are covered in Section 7 – Review of 2015/16 Audit Plan.

Table 1: Plan audit days compared to actual audit days for April to December 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	282	
Central Systems	25	50	48	
Departmental Systems	79	105	56	
Performance and Management Scrutiny	39	45	26	
Computer Audit	28	55	2	
Management Responsibilities/Unplanned Audits	176	127	65	
Total	683	667	479	504

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. The Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects – in the remainder of 2015/16 this arrangement will provide 10 days of audit work. 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 could be a reduction of up to 55 days available for audit work in 2015/16.
- 4.5 *Main Systems:*** The testing of the major financial systems was completed, and a final report issued. The results provided assurance on the adequacy of internal controls for the Annual Governance Statement (AGS), and helped to inform BDO's work on the Council's accounts, for 2014/15. The corresponding work for 2015/16 has recently begun.
- 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 was at the end of November 2015, but that date was not met because of the extra work that has been required. The claim is expected to be submitted by mid-February 2016.
- 4.7 *Central Systems:*** Final reports have been issued for the audits of Ethics 2014/15 and Health and Safety. The audits of Insurance, and Electoral Registration and Elections are at the draft report stage. The audit of Ethics 2015/16 is at the planning stage.
- 4.8 *Departmental Systems:*** The final reports from the audit of Building Control, Trade Waste and Housing Management were 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** During October 2015, it was confirmed that the Council will integrate staff and services with Eastbourne Borough Council (EBC) under the Joint Transformation Program (JTP). At the moment, a full JTP business case is being developed to look in detail how joint services might work in future. HAFP is a member of the Core Group that is overseeing these developments for the Council, and PAM has been taking part in the workshops and activity analysis that are being used to gather information for the business case.
- 4.11 *Computer Audit:*** Internal Audit completed the IT aspects of the testing of the main financial systems.

- 4.12 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.
- 4.13** 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 1,640 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 work has included analysis of the matches to weed out those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. So far, 804 matches have been actioned. 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 under the standard procedures (see 8.7 below).

## **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 Review of 2015/16 Audit Plan**

- 7.1** As part of the report to the March 2015 meeting of the Committee that detailed the Strategic Audit Plan, HAFP advised that there would be a nine month review of the Audit Plan for 2015/16 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 significantly extra work on the Benefits subsidy claim with BDO, the Senior Auditor vacancy and the flexible

retirement of the PAM. The overall effect of these factors is to reduce the number of days that are available to complete the planned audit programme for 2015/16.

**7.3** The HAFP plans the following adaptations to the programme of work in the Audit Plan for 2015/16.

- The audits of Change Control and Disaster Recovery from the programme for Computer Audit will be scheduled for future dates in the audit cycle.
- The audits of Homelessness and Housing Strategy, and Planning and Development Control, from the programme for Departmental Systems will be scheduled for a future dates in the audit cycle.
- The audit of Right to Buy (RTB) from the programme for Departmental Systems will be carried out by the Internal Audit Manager at Eastbourne BC.

Other audits in the programme for 2015/16 that are planned or underway will continue to a normal conclusion.

## **8 Combatting Fraud and Corruption**

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

**8.1** 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. 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**

**8.2** Since 1 November 2014 the Fraud Investigation 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 8.5 -8.8).

**8.3** The Investigation Team has maintained 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. 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.

**8.4** The Hub is coordinated by officers at Eastbourne BC with input from ESFOG partners. Work on cases in the separate Hub authorities will continue, but increasingly activities are being coordinated to help in the development of joint approaches to common issues that are shared with Hub partners via ESFOG. For example, LDC has been leading on aspects of tenancy fraud, and Eastbourne BC is leading on Right to Buy (RTB) fraud.

#### **LDC Investigation Team**

**8.5** During 2015/16, the team's main operational priority has been on countering tenancy fraud, with the development of case referral arrangements with officers in Housing Services, advising on controls over housing applications, and investigating

reported cases of suspected fraud. Four 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. Ten cases have been closed with there being no evidence of subletting or abandonment, and a further nine cases are currently being investigated. Dealing 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.

- 8.6** NDR fraud is a development priority for the team. In 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 will be scheduled.
- 8.7** 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 123 HB cases have been passed to SFIS since April 2015, and 75 information requests have been actioned. This liaison work with DWP/SFIS currently takes up, on average, 20 – 25% of the team's time. Negotiations are underway with Eastbourne BC to have the officer that manages their liaison with DWP take over the corresponding work at LDC, and thus enable the LDC Investigation Team to focus on case work in Housing and NDR.
- 8.8** 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 ten cases having been proven and penalties administered.

## **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** 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. In December 2015, the Government released provisional details of the funding that it will make available to local authorities for the period 2016/17 to 2019/20. This Council's funding is to be withdrawn at a faster rate than anticipated. When setting the budget for 2016/17, the Council will agree changes to its annual savings targets necessary to achieve this funding withdrawal.

- 9.4** The system of management assurance (see Section 10) 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 11).
- 9.5** 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.

## **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 were responsible in 2014/15. A joint statement by the Chief Finance Officer (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 nine months of the financial year to change these assessments.

## **11 Corporate governance**

- 11.1** 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.
- 11.2** 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.

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

**12.2 Annual Audit Letter for 2014/15 (October 2015)** – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:

- 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).

## **13 Financial Appraisal**

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

## **14 Sustainability Implications**

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

## **15 Risk Management Implications**

**15.1** 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.

## **16 Legal Implications**

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

## **17 Equality Screening**

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

## **18 Background Papers**

[Strategic Audit Plan 2015 to 2018](#)

## **19 Appendices**

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

**19.2** 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: Health and safety (H&S)**

**Date of final issue: 23 December 2015**

#### **Overall opinion**

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there are effective procedures and controls covering the H&S function at the Council. On the whole, the positive developments that followed the 2013 review have been sustained. There is a framework of H&S policies and procedures in place, with adequate means to keep the procedures up to date and a reasonable framework of controls that enable risks to be actioned when they are identified.

#### **Main points:**

Below is an outline of the issues that support this opinion. The report contains two recommendations.

The General Statement of Health and Safety Policy is issued in accordance with the requirements of Health and Safety at Work Act 1974. The statement contains the Council's overall policy on H&S, and is supported by outlines of the duties, roles and responsibilities that ensure that the Council operates in accordance with the Act. The Director of Service Delivery is identified as having delegated responsibility as the nominated H&S leader at the top of the organisation to co-ordinate and monitor policy implementation. The statement is dated 28 July 2015 and is signed by the Chief Executive.

Overall, the Council is compliant with the requirements of the Health and Safety at Work Act 1974 and associated regulations.

The recommendations from the 2013 review that dealt with the organisation and structure of the H&S function were actioned in accordance with the agreed timetable. The Council appointed a new H&S Officer in early July 2013 on a one year temporary contract. The post was full time and, from August 2013, was primarily concerned with H&S work. Since July 2014, the role of H&S Officer has been a permanent, part time post of 28 hours per week solely concerned with H&S work.

Important work has been done to update supporting H&S policies and procedures across a wide range of Council activities, and to address policy gaps where these are identified. A key project has been the development of a policy for monitoring property related risks within the Property and Facilities function. In response to potential exposures to asbestos in some Council properties, the Joint H&S Forum set up a priority project to prepare an Asbestos Management Plan. In addition, the completion of the Southover House refurbishment works in October 2013 removed the source of many of the H&S issues that were the basis for the staff concerns at that time.

The Joint H&S Forum has developed a great deal following its restart in August 2013 and has become the main vehicle for consultation between the Council and employees on H&S issues. The Forum is chaired by the Director of Service Delivery,



meets regularly, and considers a wide range of H&S related issues. The business of the Forum includes the H&S Officer reporting on progress of the H&S Audit Programme, and attendance by managers to report progress against agreed H&S action plans - there are clear priorities for ensuring proper H&S standards in the Council services assessed as high risk. The Forum also provides a mechanism for the reporting and follow up of specific H&S issues (eg safe use of windows for ventilation in hot weather), and for reviewing H&S related policies and procedures for potential improvement (eg reporting of accidents and near misses). The role of the Forum in managing H&S at the Council is indicative of the positive change in H&S culture since 2013.

The Council has largely met its commitment to improve the communications to staff on H&S with more frequent safety briefings and a range of initiatives for involving staff in H&S developments and advising them of key H&S messages. This is particularly true of the services rated as high risk. Recent evidence suggests that the Joint H&S Forum provides adequate oversight of internal communications, and helps to ensure that significant H&S topics receive appropriate coverage.

There are two areas where action is required to help ensure progress is maintained and previous gains are protected. One of these areas is the programme of H&S audits that are carried out by the H&S Officer with service managers and, where appropriate, Unison H&S Representatives. It may be necessary to adapt the future approach to the H&S audits and other aspects of the H&S Officer role to better focus resources.

One area of particular change since the 2013 review has been the emphasis on the role of service managers in ensuring H&S standards are maintained and the Council achieves compliance with the Health and Safety at Work Act 1974. This focus on the role of managers has come at a time when the Council has been undergoing a major restructuring. Given the extent and pace of change in the past year there would be benefit in re-emphasising the role of service managers in maintaining H&S standards, and particularly the role of team meetings in reinforcing the H&S messages of the Council.

**Agenda Item No: 8**

**Report No:  
17/16**

**Report Title: Treasury Management**

**Report To: Audit and Standards Committee Date: 25 January 2016**

**Ward(s) Affected: All**

**Report By: Alan Osborne, Director of Corporate Services**

**Contact Officer(s)-**

**Name(s): Stephen Jump**  
**Post Title(s): Head of Finance**  
**E-mail(s): [steve.jump@lewes.gov.uk](mailto:steve.jump@lewes.gov.uk)**  
**Tel No(s): 01273 484043**

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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 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.
- 2 **Treasury Management Activity**
  - 2.1 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.
  - 2.2 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
25 January 2016	1 November to 31 December 2015
14 March 2016	1 January to 29 February 2016

### 2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 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
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	*
227115	Thurrock Borough Council	30 Nov 15	22 Feb 16	84	2,000,000	0.480	*
227515	Thurrock Borough Council	16 Nov 16	10 Mar 16	115	3,000,000	0.500	*
					<b>8,000,000</b>		

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

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

The table overleaf shows the fixed term deposits which have matured since 1 November 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 £13.5m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
226915	The Moray Council	2 Oct 15	2 Nov 15	31	1,000,000	0.480	*
227415	Debt Management Office	2 Nov 15	9 Nov 15	7	2,000,000	0.250	*
227615	Debt Management Office	16 Nov 15	19 Nov 15	7	1,000,000	0.250	*
225115	Coventry Building Society	3 Aug 15	3 Dec 15	122	2,000,000	0.500	A
227015	Nationwide Building Society	8 Oct 15	8 Dec 15	61	1,000,000	0.460	A
227715	Debt Management Office	7 Dec 15	14 Dec 15	7	2,000,000	0.250	*
227815	Debt Management Office	14 Dec 15	21 Dec 15	7	2,000,000	0.250	*
227915	Debt Management Office	15 Dec 15	21 Dec 15	6	2,500,000	0.250	*
<b>Total</b>					<b>13,500,000</b>		

\*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 2015 was 0.51%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.49%.

## 2.5 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 £2,727,152 generating interest of approximately £1,700.

	Balance at 31 Dec '15 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	2,000	1,761	0.25%
Lloyds Bank Corporate Account	1,336	966	0.40%

## 2.6 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 Dec '15 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	750	2,272	0.58%
Deutsche Managed Sterling Fund	750	2,076	0.55%

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

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

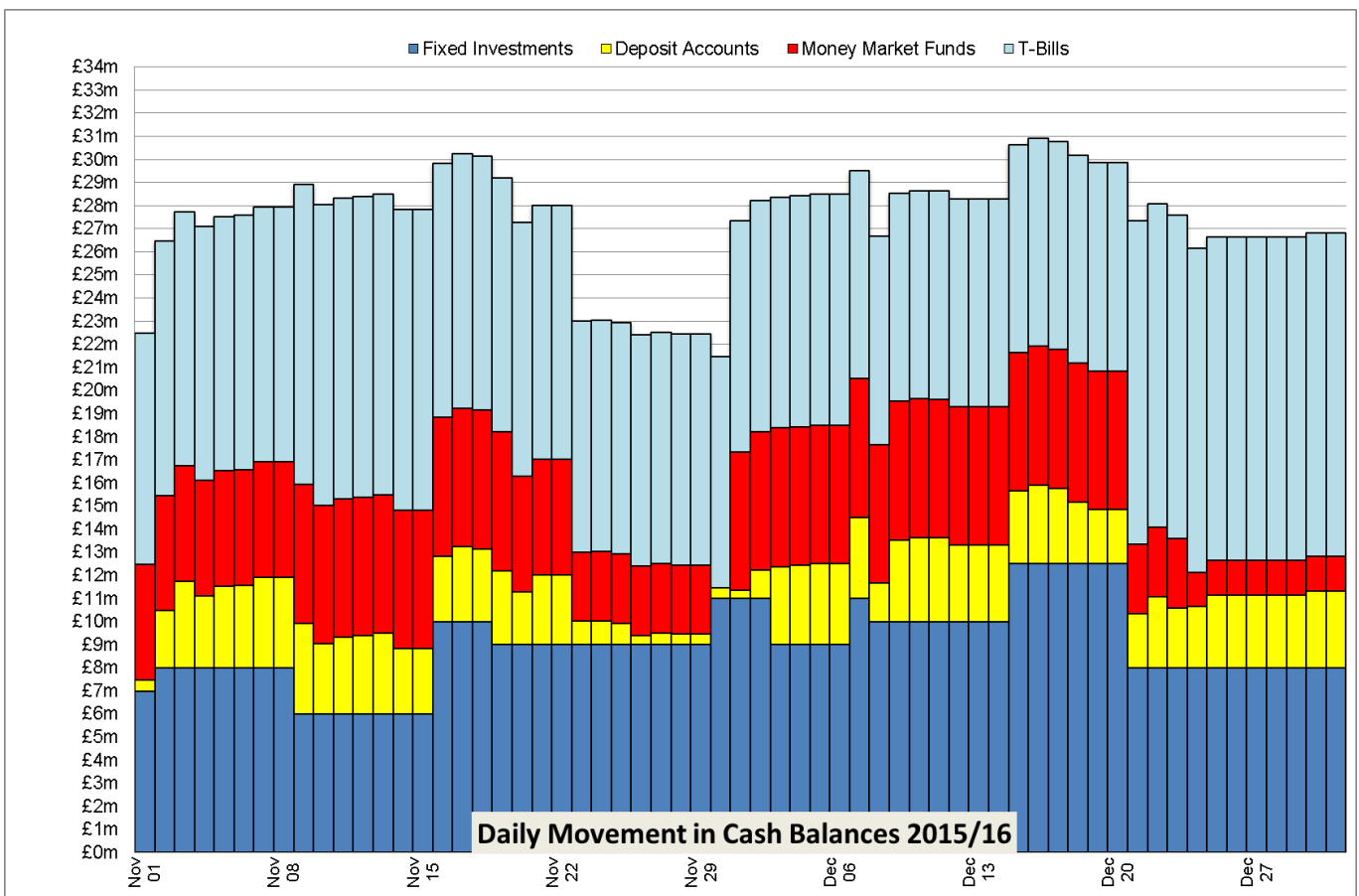
	Purchased in period	Purchase date	£'000	Disc %
<b>Held at 31 October 2015</b>				
UK Treasury Bill 0%		18 Jan 16		
		20 Jul 15	1,000	0.585
UK Treasury Bill 0%		15 Feb 16		
		17 Aug 15	1,000	0.540
UK Treasury Bill 0%		21 Mar 16		
		21 Sep 15	1,000	0.562
UK Treasury Bill 0%		29 Mar 16		
		28 Sep 15	1,000	0.565
UK Treasury Bill 0%		04 Apr 16		
		05 Oct 15	1,000	0.548
UK Treasury Bill 0%		25 Jan 16		
		26 Oct 15	1,000	0.479
UK Treasury Bill 0%	✓	03 May 16	1,000	0.555
UK Treasury Bill 0%	✓	08 Feb 16	1,000	0.485
UK Treasury Bill 0%	✓	07 Mar 16	1,000	0.481
UK Treasury Bill 0%	✓	18 Jan 16	1,000	0.330
UK Treasury Bill 0%	✓	18 Jan 16	1,000	0.320
UK Treasury Bill 0%	✓	18 Jan 16	1,000	0.315
UK Treasury Bill 0%	✓	18 Jan 16	1,000	0.324
UK Treasury Bill 0%	✓	21 Mar 16	1,000	0.466

	Purchased in period	Purchase date	£'000	Disc %
<b>Matured since last report</b>				
UK Treasury Bill 0%	16 Nov 15	17 Aug 15	2,000	0.460
UK Treasury Bill 0%	07 Dec 15	07 Sep 15	1,000	0.459
UK Treasury Bill 0%	23 Nov 15	26 Oct 15	1,000	0.396
UK Treasury Bill 0%	07 Dec 15	09 Nov 15	1,000	0.340

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.51%. Those purchased in the period averaged 0.47%.

## 2.8 Overall investment position

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



## **2.9 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.

### **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**

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

**Agenda Item No: 9**

**Report No:  
18/16**

**Report Title: Annual Treasury Management Strategy Statement and  
Investment Strategy 2016/2017 to 2018/2019**

**Report To: Audit and Standards Committee Date: 25 January 2016**

**Ward(s) Affected: All**

**Report By: Alan Osborne, Director of Corporate Services**

**Contact Officer(s)-**

**Name(s): Stephen Jump**  
**Post Title(s): Head of Finance**  
**E-mail(s): [steve.jump@lewes.gov.uk](mailto:steve.jump@lewes.gov.uk)**  
**Tel No(s): 01273 484043**

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**Purpose of Report:**

**To present the draft Treasury Management Strategy Statement and  
Investment Strategy 2016/2017 to 2018/2019.**

**Officers Recommendation:**

1. To receive the draft Treasury Management Statement and Investment Strategy 2016/2017 to 2018/2019 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 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 revised Code of Practice which was published in November 2011 and has been prepared with the support of Arlingclose, the Council's Treasury advisers.
- 1.3 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.

### 2 2016/2017 Strategy Statement in context

- 2.1 As explained to Councillors by the Council's Treasury advisers, Arlingclose, at a briefing meeting held in October 2015, the transposition of two European Union directives into UK legislation has placed the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The combined effect is to leave public authorities and financial organisations as the only senior creditors likely to incur losses in a failing bank. The credit risk associated with making unsecured bank deposits has increased relative to the risk of other investment options.
- 2.2 Given the risk and continued low returns from short-term unsecured bank investments, the Strategy enables the Council to diversify into more secure and/or higher yielding asset classes during 2016/2017. Diversification is of increasing importance in the context of the Council's reserves and balances reducing 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. This diversification represents a continuation of the new strategy adopted in 2015/2016.



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

- 3.1** The current minimum credit rating for investments permissible under the current Strategy is long-term 'A'. A proviso was built into the current Strategy that, in the event of widespread downgrading of major UK banks by credit rating agencies in response to the implementation of the bail-in provisions of the EU Bank Recovery and Resolution Directive, unsecured deposits can be made with banks with a rating of 'A-' (maximum duration 6 months) or 'BBB+' (maximum duration 100 days).
- 3.2** Widespread significant downgrading has not materialised in 2015/2016, and Arlingclose advise that their clients can consider adopting a minimum credit rating criteria of long term 'BBB+', two marks below the 'A' rating. It is proposed to exercise more caution, and to move to a minimum credit rating of long term 'A-' for investments made in 2016/2017. In the event of a widespread downgrade affecting all prospective counterparties, investments with counterparties rated at BBB+ or below would be permissible. Unsecured deposits with a bank rated at 'BBB' would be restricted to overnight deposits at the Council's current account bank only.
- 3.3** Appendix C (page 24) of the Strategy sets out approved counterparty types and limits for 2016/2017 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 long-term 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. Arlingclose have noted that the Council's investment returns in 2015/2016 are below those achieved by their other local authority clients, which have actively diversified and lengthened the duration of their investments. Officers intend to adopt a similarly flexible approach in 2016/2017, looking for opportunities to invest, for example, in covered bonds issued by Banks or property funds.

### **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 2016/2017.
- 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 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 2016 as a full 'budget package'. It has not been possible to include future values for these Prudential Indicators at this stage, and they will be outside the scope of the Audit and Standards Committee's review.

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

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

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

**9 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  
2016/2017 to 2018/2019

**Background Papers** – Treasury Strategy Statement 2015/2016  
<http://www.lewes.gov.uk/council/20987.asp>

## Lewes District Council

### Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

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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 2016, total cumulative capital expenditure which will need to be funded amounts to £70.9 m. The actual long term-borrowing (the mortgage) that we have is only £56.7m because we are using the cash held in our reserves to make up the difference, rather than invest that money. (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, and will also build up a fund in the Housing Revenue Account Balance so that debt can be repaid if we choose to do so. (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 and 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 revised '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.
- 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.

### **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

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual inflation falling to 0.1% in October as measured by the Consumer Prices Index (CPI). Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some 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. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

### 5.2 Credit Outlook

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement.

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 UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Changes to the UK Financial Services Compensation Scheme mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. 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 stubbornly low.

The continued global economic recovery has led to a general improvement in credit conditions since last year. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.

### 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. In summary, Arlingclose forecasts the first rise of 0.25% in the UK Bank Rate in the third quarter of 2016, rising by 0.5% a year after, and finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and concerns over the UK's future position in Europe mean that the risks to this forecast are on the downside (ie interest rates might rise more slowly).

Arlingclose forecasts a slow increase in long-term borrowing rates. Arlingclose is projecting the 10 year gilt yield (which is an indicator of borrowing rates) to rise from its current 2.0% level by around 0.3% per year.

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 estimate for external interest payments in 2015/2016 is £1.73m, unchanged from 2014/2015, and for external interest receipts is £0.104m (2014/2015 £0.075m).

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 has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in its housing debt cap in order to enable specific projects. A bid from this Council was successful and this Council's debt cap will increase to £75.248m to match expenditure incurred in building new houses on 7 specified former garage sites.

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 2016/2017.

- 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 below. Amounts from 2016/2017 onwards are indicative. Projected capital expenditure in 2016/2017 with a financing requirement includes projects for the construction of 30 new affordable homes (£2.5m) and the relocation of the Robinson Road depot (£3.5m). Significant un-financed expenditure on the New Homes Project is factored in to 2017/2018 and 2018/2019.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Opening CFR	71.448	69.979	70.893	75.049	76.965
Capital exp in year	10.006	14.075	14.992	10.837	15.836
Less financed	-9.613	-11.304	-8.990	-6.769	-6.730
Less amount set aside for debt repayment	-1.862	-1.857	-1.846	-2.152	-2.134
Closing CFR	<b>69.979</b>	<b>70.893</b>	<b>75.049</b>	<b>76.965</b>	<b>83.937</b>

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

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
HRA CFR	65.474	63.98	64.982	67.371	74.798
General Fund CFR	4.505	6.913	10.067	9.594	9.139
Total CFR	<b>69.979</b>	<b>70.893</b>	<b>75.049</b>	<b>76.965</b>	<b>83.937</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):



	31/3/15 £m	31/3/16 £m	31/3/17 £m	31/3/18 £m	31/3/19 £m
(a) Capital Financing Requirement	69.979	70.893	75.049	76.965	83.937
(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)	13.306	14.220	18.376	20.292	27.264
(d) Total Balances and Reserves	15.357	10.682	10.900	10.509	10.507
(e) Working capital	7.669	12.098	13.944	16.097	18.231
(f) Amount used as an alternative to borrowing (c) above	-13.306	-14.220	-18.376	-20.292	-27.264
(g) Total investments (d)+(e)+(f)	9.720	8.560	6.468	6.314	1.474

- 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 g in the table above indicates that it will be possible to continue the current approach of internal borrowing as an alternative to raising new external loans, which remain at their current level across the period (line b). However, 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 later years are less certain. 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. The following section explains the approach to borrowing in more depth.

## 7. Borrowing Strategy

- 7.1 As noted above, the Council's underlying need to borrow for capital purposes is measured by reference to its CFR. In respect of General Fund activities, local authorities are required to make a charge to Revenue budgets each year to ensure that the underlying need to borrow is eliminated over the longer term. This charge is known as the Minimum Revenue Provision for Debt Redemption (MRP). There is no requirement to make a provision to reduce HRA borrowing, although it is prudent to do so.
- 7.2 Capital expenditure not paid for from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce increased annual MRP charges in the Revenue Account.
- 7.3 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 long-term borrowing requirement in respect of historic and planned capital expenditure is shown in the table below. Increases resulting from the projects listed in paragraph 6.4 above

are offset over the period though to 2018/2019 by provision being made by the HRA for the repayment of debt.

	31/03/2016 Estimate £m	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m
<b>Capital Financing Requirement</b>	70.9	75.0	77.0	83.9
<b>Less:</b> Profile of current Borrowing	-56.7	-56.7	-56.7	-56.7
<b>Cumulative Maximum External Borrowing Requirement</b>	14.2	18.3	20.3	27.2

- 7.4 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.
- 7.5 Given the projected reduction in revenue funding from the Government through to 2019/2020 and the Council's General Fund savings target of £2.7m over that period, the Council's 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 2016) available to the Council for 2-year and 5-year PWLB maturity loans are 1.48% and 2.08% respectively compared with 0.25% which can be earned on a temporary deposit with the Government.
- 7.6 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. At some stage the level of General Fund Reserves and Balances will become depleted (as they are used for the purpose for which the funds were set aside) restricting the ability to borrow internally. 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 at long-term fixed rates in 2016/2017 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. 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 bank or building society approved for investments (see Section 11) below.
- 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, and this remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. However, the Council will investigate other sources of finance, such as local authority loans and bank loans that 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 Lender's Options Borrower's Option (LOBO) loan shown in the table above was taken out in April 2004 at the rate of 4.5% with a term of 50 years. Every 4 years, the Lender has the option to increase the interest rate, and if it does so, the Council has the right to repay. The next date when the rate/terms of the loan will be reviewed is April 2016. Although the Council understands that Barclays is unlikely to exercise its option in the current low interest rate environment, the Council will take the option to repay the LOBO loan at no cost if it has the opportunity to do so.

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	LOBO	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. 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. 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 (£10.7m projected at 31 March 2016 excluding 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. Reserves and Balances are forecast to reduce over the next three years as they are called upon to support projects, services and the Council's deficit reduction programme.
- 10.2 Although a proportion of the Reserves and Balances are being used as an alternative to external long-term borrowing, this still leaves a residual amount as retained cash. 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 2015/2016 £13m was available for investment but the maximum amount invested at any point in the year was £34m. 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 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. 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.

- 11.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2016/2017. This is especially the case for funds that are identified as being available for longer-term investment. Although this approach was enabled by the 2015/2016 strategy, it was not actively pursued in that year.
- 11.3 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 2016/2017, and some have not been used previously. Before any type of investment instrument is used for the first time (eg corporate bonds), the advice of Arlingclose will be sought.
- 11.4 Investment decisions will be made 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.
- 11.5 The Council and its advisors remain vigilant at all times, monitoring signs of credit or market distress that might adversely affect the Council.
- 11.6 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 recalled
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty
- 11.7 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.
- 11.8 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.
- 11.9 At times of deteriorating financial market conditions affecting the credit worthiness of all organisations (as happened in 2008 and 2011), 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. 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

- 11.10 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'

Non specified investments are, effectively, everything else. 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'.

- 11.11 The Council defines 'high credit quality' organisations and securities as those having a long-term credit rating of A- or higher that are domiciled in the UK or 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.

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 with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£9m

- 11.12 The Council's revenue reserves available to cover investment losses are forecast to be £8m on 31st March 2016. 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
Foreign countries	£2m per country
Registered Providers	£4m in total
Money Market Funds	£10m in total

- 11.13 The Director of Corporate Services 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.
- 11.14 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.
- 11.15 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.
- 11.16 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 - 2016/17 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.
- 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 will remain unchanged in 2016/2017:

- there is no expectation that the Council will have the opportunity to incur capital expenditure which is supported expenditure, 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.
- In the event that capital expenditure is incurred which is not Supported Capital Expenditure and is therefore self-financed, 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 Director of Corporate Services 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	Every cycle
<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 Director of Corporate Services, 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 (the most recent session was held in October 2015).

- 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 has appointed Arlingclose as its financial advisers for the period 1 July 2012 to 30 June 2016, with an option to extend for a further year at the discretion of the Council. The views of the Audit and Standards Committee and Cabinet will be sought in deciding whether to exercise this discretion.
- 16.2 Arlingclose will be the Council's primary source of information, advice and assistance relating to investment activity. Individual investment decisions are made by the Council. Review meetings are held at least twice a year, at which the quality of the service received to date is discussed.

## **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 [finance@lewes.gov.uk](mailto:finance@lewes.gov.uk).

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.50</b>	<b>1.50</b>	<b>1.75</b>	<b>1.75</b>
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
<b>3-month LIBID rate</b>													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>0.55</b>	<b>0.60</b>	<b>0.70</b>	<b>0.80</b>	<b>0.95</b>	<b>1.05</b>	<b>1.15</b>	<b>1.30</b>	<b>1.40</b>	<b>1.55</b>	<b>1.65</b>	<b>1.80</b>	<b>1.85</b>
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
<b>1-yr LIBID rate</b>													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
<b>Arlingclose Central Case</b>	<b>1.10</b>	<b>1.20</b>	<b>1.35</b>	<b>1.45</b>	<b>1.55</b>	<b>1.70</b>	<b>1.80</b>	<b>1.95</b>	<b>2.00</b>	<b>2.10</b>	<b>2.15</b>	<b>2.15</b>	<b>2.15</b>
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
<b>5-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.70</b>	<b>1.80</b>	<b>1.90</b>	<b>2.00</b>	<b>2.10</b>	<b>2.20</b>	<b>2.25</b>	<b>2.30</b>	<b>2.35</b>	<b>2.35</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>10-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.00</b>	<b>2.05</b>	<b>2.10</b>	<b>2.20</b>	<b>2.30</b>	<b>2.40</b>	<b>2.50</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.80</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>20-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>2.95</b>
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
<b>50-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>3.00</b>	<b>3.00</b>
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

### Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.

- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

**Forecast:**

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

## Appendix B – Prudential Indicators 2016/2017 to 2018/2019

### 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.

### 2. Net Borrowing and the Capital Financing Requirement:

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Director of Corporate Services reports that the Council has had no difficulty meeting this requirement in 2015/2016, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the draft budget for 2016/2017.

### 3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
1a	Non-HRA	4.842	9.836	7.498	1.424	1.385
1b	HRA	5.164	4.239	7.494	9.413	14.451
	<b>Total</b>	<b>10.006</b>	<b>14.075</b>	<b>14.992</b>	<b>10.837</b>	<b>15.836</b>

### 4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

- 4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2015/16 Original %	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
2a	Non-HRA	0.95	To be completed			
2b	HRA	20.69				

## 5. Capital Financing Requirement

- 5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
3a	Non-HRA	8.421	6.913	10.067	9.594	9.139
3b	HRA	65.613	63.980	64.982	67.371	74.798
	<b>Total CFR</b>	<b>74.034</b>	<b>70.893</b>	<b>75.049</b>	<b>76.965</b>	<b>83.937</b>

- 5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
<b>Balance B/F</b>	70.709	69.979	70.893	75.049	76.965
Capital expenditure financed from borrowing	5.202	2.771	6.002	4.068	9.106
Revenue provision for Debt Redemption.	-1.877	-1.857	-1.846	-2.152	-2.134
<b>Balance C/F</b>	<b>74.034</b>	<b>70.893</b>	<b>75.049</b>	<b>76.965</b>	<b>83.937</b>

## 6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No.	Actual External Debt as at 31/03/2016	£m
4a	Borrowing	56.673
4b	Other Long-term Liabilities	0.080
<b>4c</b>	<b>Total</b>	<b>56.753</b>

## 7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is

calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme. The revenue budget requirement includes the use of Reserves.

No.	Incremental Impact of Capital Investment Decisions	2015/16 Original £	2015/16 Revised £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
5a	Increase in Band D Council Tax	84.39				
5b	Increase in Average Weekly Housing Rents	5.93				

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure.

## 8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated Treasury Management strategy and manages its Treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No.	Authorised Limit for External Debt	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
6a	Borrowing	76.00	76.00	76.00	76.00	76.00
6b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
6c	<b>Total</b>	<b>76.50</b>	<b>76.50</b>	<b>76.50</b>	<b>76.50</b>	<b>76.50</b>

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based



on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

- 8.6 The Director of Corporate Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet.

No.	Operational Boundary for External Debt	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
7a	Borrowing	70.50	70.50	70.50	70.50	70.50
7b	Other Long-term Liabilities	0.50	0.50	0.50	0.50	0.50
7c	<b>Total</b>	<b>71.00</b>	<b>71.00</b>	<b>71.00</b>	<b>71.00</b>	<b>71.00</b>

## 9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the revised CIPFA Treasury Management Code in February 2010. The Council has incorporated the changes from the CIPFA Code of Practice and subsequent revisions into its treasury policies, procedures and practices.

## 10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.

- 10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
9	Upper Limit for Fixed Interest Rate Exposure	76.5	76.5	76.5	76.5	76.5
10	Upper Limit for Variable Interest Rate Exposure	(27.5)	(27.5)	(27.5)	(27.5)	(27.5)

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the

decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

## 11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
11a	under 12 months	0	70
11b	12 months and within 24 months	0	70
11c	24 months and within 5 years	0	75
11d	5 years and within 10 years	0	75
11e	10 years and above	0	100

## 12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No.	Upper Limit for total principal sums invested over 364 days	2014/15 Original %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
12	Upper limit	50	50	50	50	50

## 13. HRA Limit on Indebtedness

This Prudential Indicator is associated with the introduction of self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
13a	HRA CFR	65.613	63.980	64.982	67.371	74.798
13b	HRA Debt Cap	75.248	75.248	75.248	75.248	75.248
	<b>Difference</b>	<b>9.635</b>	<b>11.268</b>	<b>10.266</b>	<b>7.877</b>	<b>0.450</b>

## 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	No use	No use	No use
See note below					
BBB+	£2m 100 days	£2m 6 months	No use	No use	No use
BBB or BBB-	£2m next day only	£2m 100 days	No use	No use	No use
Pooled funds	£3m per fund				

Approved investments with institutions with credit ratings of BBB+ or below will only be permissible in the event of rating agencies downgrading the ratings of major UK banks in response to a change which impacts on all prospective counterparties. Updated advice from Arlingclose will be sought in these circumstances before new investments are made.

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. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Council's current account bank.

**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 a high 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.

## 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.
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 also 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. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty Credit Default Swaps	Organisation with which the Council makes an investment 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. At present, 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.
International Financial Reporting Standards (IFRS)	The set of accounting rules with which all local authorities have been required to comply from 1 April 2010.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five 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 imposed 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.
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.