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FAREHAM
BOROUGH COUNCIL

AGENDA
AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 27 November 2017

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor	J E Butts (Chairman)
Councillor	P J Davies (Vice-Chairman)
Councillors	Mrs M Brady
	Mrs T L Ellis
	Miss T G Harper
	Mrs K Mandry
	S D Martin
Deputies:	S Cunningham
	Mrs S M Bayford

PREST A FAIRE

1. **Apologies**

2. **Minutes** (Pages 5 - 8)

   To confirm as a correct record the minutes of the Audit and Governance Committee meeting held on 25 September 2017.

3. **Chairman's Announcements**

4. **Declarations of Interest and Disclosures of Advice or Directions**

   To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. **Deputations**

   To receive any deputations of which notice has been lodged.

6. **External Audit - Annual Audit Letter** (Pages 9 - 36)

   To consider a report from the Director of Finance and Resources on the External Auditors Annual Audit Letter summarising the findings from the 2016/17 audit.

7. **Treasury Management Progress Report** (Pages 37 - 68)

   To consider a report by the Director of Finance and Resources on a mid-year review of the Treasury Management Progress.

8. **General Data Protection Regulations** (Pages 69 - 70)

   To consider a report and presentation from the Head of Democratic Services on the General Data Protection Regulations (GDPR) that come in to effect in May 2018.

9. **Update on Vanguard Review of Procurement**

   To receive a verbal update from the Head of Democratic Services on the Vanguard review of the Councils procurement process.

10. **Quarterly Audit Report** (Pages 71 - 84)

    To consider a report by the Head of Finance and Audit on the delivery and findings of the Internal Audit Plan.

11. **Review of the Work Programme** (Pages 85 - 88)

    To consider a report by the Head of Finance and Audit on a review of the Work Programme for 2017/18.

P GRIMWOOD
Chief Executive Officer

Civic Offices
www.fareham.gov.uk
17 November 2017

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FAREHAM
BOROUGH COUNCIL

Minutes of the Audit and Governance Committee

(to be confirmed at the next meeting)

Date: Monday, 25 September 2017

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillors: J E Butts (Chairman)

P J Davies (Vice-Chairman)

Councillors: Mrs M Brady, Mrs T L Ellis, Miss T G Harper, Mrs K Mandry and Mrs S M Bayford (deputising for S D Martin)

Also Present:

1. APOLOGIES

An apology of absence was received from Councillor S D Martin.

2. MINUTES

RESOLVED that the minutes of the Audit and Governance Committee held on the 17 July 2017 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

There were no Chairman’s Announcements made at this meeting.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. OVERVIEW OF COMPLAINTS AGAINST THE COUNCIL

(Councillor Mrs T L Ellis joined the meeting at the start of this item)

The Committee considered a report by the Director of Finance and Resources on an annual overview of the complaints made to the Local Government Ombudsman against the Council and breaches of the Members Code of Conduct.

RESOLVED that the Committee notes the contents of the report.

7. EXTERNAL AUDIT - AUDIT RESULTS REPORT

The Committee considered a report by the Director of Finance and Resources on the External Auditors’ (Ernst & Young LLP) annual results.

Ernst & Young highlighted to Members the additional fee summarised on page 25 of the report. The £1,500 increase to fees is for work their property experts carried out on the valuation of Daedalus. The Director of Finance and Resources expressed some discomfort at the additional fee but updated Members that the External Auditors had agreed to supply additional supporting information and evidence.

RESOLVED that the Committee: -

(a) subject to Ernst & Young providing appropriate additional supporting information and evidence to the Director of Finance and Resources, the increase in the planned fee by £1,500 for the work their property experts carried out on the valuation of Daedalus be approved;

(b) note the content of the annual results report; and

(c) note that the Director of Finance and Resources and the Chairman of the Audit and Governance Committee will sign the letter of representation after the next item presenting the Statement of Accounts.

8. STATEMENT OF ACCOUNTS

The Committee considered a report by the Director of Finance and Resources on the audited Statement of Accounts 2016/17.

After the last meeting of the Audit and Governance Committee in July, changes were required to the Statement of Accounts as the result of the external audit of the accounts undertaken by Ernst & Young LLP. The changes were highlighted to Members.

RESOLVED that the Committee approved the audited Statement of Accounts 2016/17, attached as Appendix A, for publication by 30 September 2017.

9. UPDATES ON ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The Committee received a verbal update from the Head of Finance and Audit updating members on the next phase of the arrangements of the appointment of the Council's external auditors from April 2018.

PSAA (Public Sector Audit Appointments) have consulted with all Councils on their proposed appointment to each Council for the core audit work. Fareham Borough Council have confirmed they are happy with the initial proposal. We will receive final confirmation of who has been appointed as the Council's External Auditors by 31 December 2017. The Council has also started to consider how it will appoint the External Auditors for its certification work. This appointment needs to be concluded by 28 February 2018.

RESOLVED that the Committee note the content of the verbal update.

10. RISK MANAGEMENT MONITORING REPORT

The Committee received a report from the Head of Finance and Audit providing a six-monthly overview of the new Risk Management Policy.

RESOLVED that the Committee review the report as a source of evidence that the current Risk Management Policy is operating in practice.

11. COUNTER FRAUD PROGRESS REPORT

The Committee considered an annual report by the Head of Finance and Audit on the fraud work carried out in 2016/17.

RESOLVED that the Committee notes the contents of the report.

12. QUARTERLY AUDIT REPORT

The Committee received a report from the Head of Finance and Audit on the progress and findings arising from the internal audit work.

Members asked about the planned audit opinion number 15 – Chipside. The Head of Finance and Audit confirmed that this is the software used by the Parking Services Department for the issuing and management of penalty charge notices and residents' permits.

RESOLVED that the Committee note the contents of the report.

13. REVIEW OF THE WORK PROGRAMME

The Committee received a report from the Head of Finance and Audit reviewing the Work Programme for the current municipal year.

RESOLVED that the Committee approve the Work Programme.

(The meeting started at 6.00 pm
and ended at 7.10 pm).

Agenda Item 6

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date 27 November 2017

Report of: Director of Finance and Resources

Subject: EXTERNAL AUDIT – ANNUAL AUDIT LETTER

SUMMARY

This report presents the External Auditor's Annual Audit Letter which summarises the findings from the 2016/17 audit.

RECOMMENDATION

It is recommended that the committee notes the contents of the Annual Audit Letter 2016/17 submitted by the Council's external auditors, attached as Appendix A.

Fareham Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘‘Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Fareham Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Financial Report 2016/17.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 25 September 2017.

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 September 2017 Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 13 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2016/17 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported to the Audit and Governance Committee on 25 September 2017.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	Our approach focused on: ► testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error'; ► testing the Movement in Reserves Statement to assess the appropriateness of amounts transferred from Earmarked Reserves and the Housing Revenue Account to the General Fund; ► reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; ► evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times; and ► reviewing the Minimum Revenue Provision policy and the appropriateness of charges made in the financial statements. We found no issues to report.

Significant Risk	Conclusion
Valuation of Daedalus	
Our review of the Council's draft financial statements showed that there was a 231% increase in the value of Daedalus within Other Land and Buildings balance in 2016/17 compared to a 1.98% increase in 2015/16. Given that there was also a change in valuer, and the complexity of the calculations and assumptions involved, we concluded that we needed to seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.	We concluded that the basis of value and methodology adopted by the specialist was appropriate given the characteristics of the assets being measured; and the specialist possessed the necessary qualifications and experience to perform the valuation analysis. The significant assumptions used in developing the estimate were within a reasonable range given the facts and circumstances present as at the valuation date. The total property value is considered to be reasonable and supported by reference to market evidence. As auditors we have assurance going forward that the valuation commissioned by management was robust and fairly reflects the valuation of Daedalus.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using materiality of £1,185,620. We have reassessed this based on the actual results for the financial year and decreased this amount to £1,182,760. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £59,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts.

- Related party transactions. Strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements.

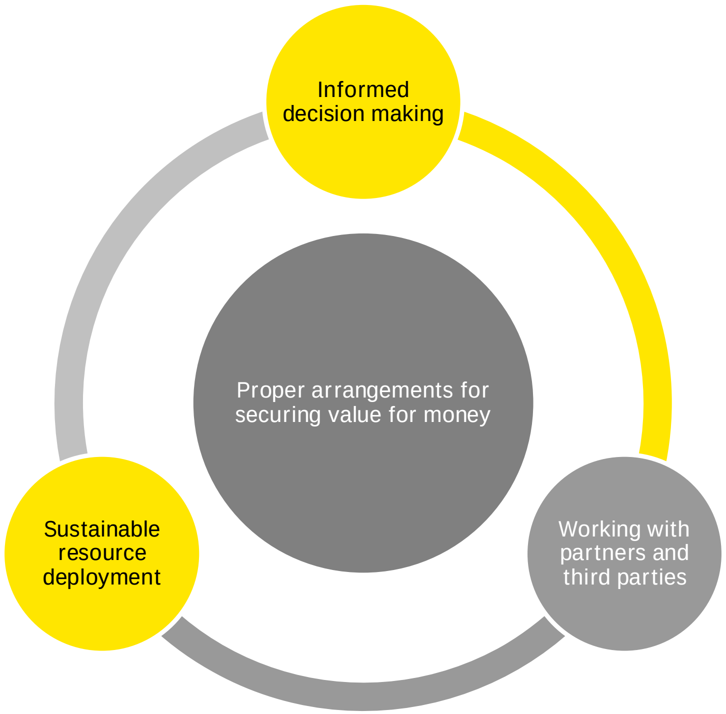
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risk in relation to these arrangements. We performed the procedures outlined in our audit plan and the table below presents the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 27 September 2017.

Significant Risk	Conclusion
Sustainable Resource Deployment – medium term financial outlook Financial pressures in the public sector continue to mount. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government. The Council also has a number of ongoing developments and schemes which would need to be integrated into its revenue and capital budgets which could have a significant impact on the medium term finance.	Reviewing outturn against the 2016/17 budget. A strong history of managing service delivery to budget, provides comfort over the Council's ability to set realistic and achievable budgets in the future At 31 March 2017, the Council reported a robust outturn financial position. There were no recurring service overspends that would have a material impact on medium term financial planning. The Council has also maintained its reserves at a prudent level. Reviewing the reasonableness of the 2017/18 budget and 5 year Finance Strategy, including integration of Daedalus (and other significant capital projects) into the Council's revenue and capital budgets The Council's Medium Term Financial Strategy (MTFS) is considered annually and was last approved by the Executive on 10 October 2016. The Council is in the process of updating this forecast. We have reviewed the assumptions in the 5 year Finance Strategy and the Council's 2017/18 budget and consider them reasonable at the time of preparation. The Council recognises the uncertainty in future funding levels from central government, and will need to fully incorporate Minimum Revenue Provision when updating its MTFS given the increase in the number of Council schemes funded by borrowing. The Council has integrated Daedalus (and other significant capital projects) into its revenue and capital budgets and, with a number of leases concluded and other income generation schemes potentially underway at Daedalus, the Council is confident in maintaining financial sustainability and meeting the subsidy gap. Evaluating the progress made with, and achievability of, the efficiency plan intended to address budget shortfalls in future years Our work confirmed the Council has a sound record for delivering efficiency plans. Individual schemes underpinning the plan are developed and the Council is confident they are achievable. The Council has a strong history of achieving savings plans in advance of need.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 25 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

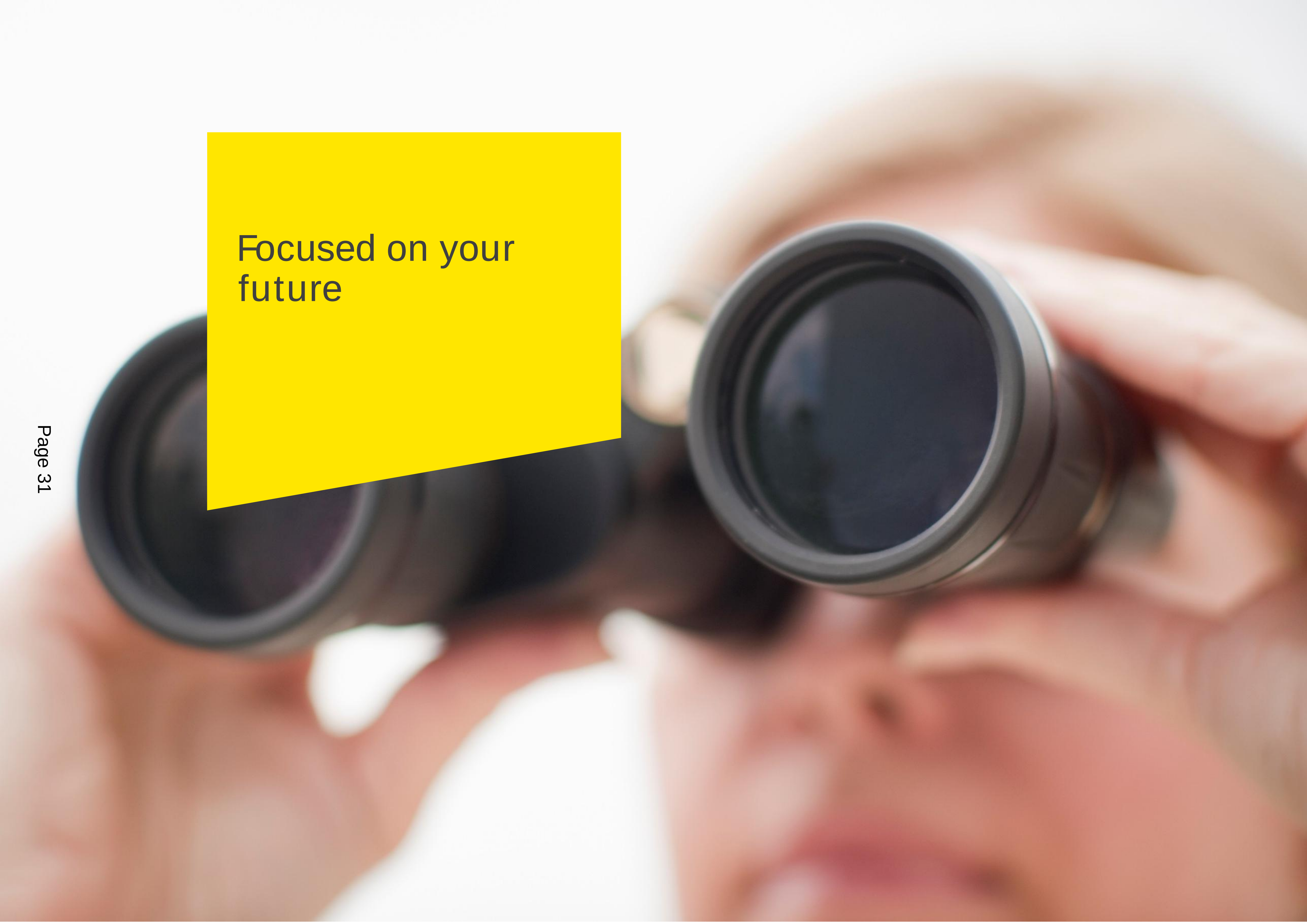
Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any significant controls issues to bring to the attention of the Audit and Governance Committee.

Focused on your future



Focused on your future

Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council should consider taking the outlined below: • Critically review and amended the closedown process to achieve draft accounts production at an earlier date; • Streamline the Statement of Accounts removing all non-material disclosure notes; • Bring forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations; • Provide training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-order tasks from year-end to monthly or quarterly timing to reduce year-end pressure; and • Establish and agree working materiality amounts with your auditor. As auditors, nationally we have: • Issued a thought piece on early closedown; • As part of the strategic alliance with CIPFA, jointly presented accounts closedown workshops across England, Scotland and Wales; • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. Locally we have: • Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable; • Scheduled a meeting with key finance staff for early October to discuss and agree with the Council areas for early work which could include testing of major income and expenditure streams at month 9, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures as part of the interim work.

Appendix A

Audit Fees

Appendix A Audit Fees

Our fees for 2016/17 are set out in the table below:

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	49,730*	48,230	48,230	48,230
Total Audit Fee – Certification of claims and returns	TBC**	11,310	11,310	15,959

* The proposed final fee includes £1,500 in respect of additional work required to gain assurance over the significant risk in respect of the valuation of Daedalus. The additional fee was discussed at the 25 September Audit and Governance Committee. This is subject to approval by the PSAA. We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

** Our work on the housing benefit grant claim is currently ongoing and we will report the final certification fees in our Certification of claims and returns annual report.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

ED None

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **27 November 2017**

Report of: **Director of Finance and Resources**

Subject: **TREASURY MANAGEMENT PROGRESS REPORT**

SUMMARY

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, the Audit and Governance Committee is the responsible body to examine and assess the effectiveness of the Council's treasury management policy and strategy.

In accordance with this role, this report sets out the mid-year review of treasury management activity up to 30 September 2017.

RECOMMENDATION

It is recommended that the Audit and Governance Committee note the contents of the report.

INTRODUCTION

1. The Council's Treasury Management Strategy for 2017/18 was approved by full Council on 24 February 2017 and can be found in Appendix A. This report provides members with a mid-year update on the implementation of this Strategy.

BORROWING ACTIVITY

2. At 30 September 2017, the Council held £42.3 million of loans, (an increase of £0.5 million on 31 March 2017) as summarised in the table below:

	Balance on 31 March 2017 £'000	Balance on 30 Sept 2017 £'000	Average Rate
Long Term Borrowing	40,000	40,000	3.50%
Portchester Crematorium	1,541	2,017	0.25%
Charity of Winifred Nellie Cocks	287	288	0.50%
Total Borrowing	**41,828**	**42,305**	

3. The Council holds investments from Portchester Crematorium Joint Committee and the Charity of Miss Winifred Nellie Cocks which are treated as temporary loans.

4. The Council expects to borrow externally up to £10 million more by the end of 2017/18 to part fund the capital programme.

5. Affordability and the 'cost of carry' remained important influences on the Council's borrowing strategy alongside the consideration that, any borrowing undertaken ahead of need, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term interest rates, the Council determines it is more cost effective in the short term to use internal resources (internal borrowing) and short-term loans instead.

6. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's treasury advisors assist with this 'cost of carry' and breakeven analysis.

INVESTMENT ACTIVITY

7. The total value of investments held by the Council as at 30 September 2017 is summarised in the table below:

Investments	Externally Managed £m	Internally Managed £m	Call Accounts £m	Money Market Funds £m	Total £m
At 1 April 2017	**3.0**	**6.0**	**0.0**	**6.0**	**15.0**
New	0	10.0	10.4	32.0	52.4
Repaid	3.0	9.0	8.4	35.8	56.2
At 30 Sept 2017	**0.0**	**7.0**	**2.0**	**2.2**	**11.2**

8. The £3.8 million decrease in investments during the first half of the year was mainly due to the timing of precept payments, receipts of grants and progress on the Capital Programme.

9. A total of £67.4 million has been invested at some point in the six months as detailed in Appendix C. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in the Treasury Management Strategy 2017/18.

REGULATORY UPDATES

Markets in Financial Instruments Directive (MiFID II)

10. Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, because of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. (Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments).

11. To opt up to professional, the authority must:

    - have an investment balance of **at least £10 million**;
    - the person authorised to make investment decisions on behalf of the authority must have **at least one year's relevant professional experience**;

    In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

12. If the Council were to change their status to retail client it is likely it will face increased costs and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

13. The Council currently meets the conditions to opt up to professional status and intends to do so in the future to maintain their current MiFID status and to continue to have access to a broad range of investment products.

CIPFA Consultation on Prudential and Treasury Management Codes

14. In February 2017, CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

15. The proposed changes to the Prudential Code include:

    - the production of a new high-level Capital Strategy report to Full Council which will cover the basics of the capital programme and treasury management;
    - the prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee;

- plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts;
- applying the principles of the Code to subsidiaries.

16. Proposed changes to the Treasury Management Code include:

    - the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes;
    - the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy;
    - approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of Full Council;
    - plans to drop or alter some of the current treasury management indicators.

17. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year.

18. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

BUDGETED INCOME AND OUTTURN

19. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. The Bank of England’s Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK’s economic outlook justifies such a move at this stage, but the Bank’s interpretation of the data seems to have shifted.

20. This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% for the foreseeable future.

21. The Council’s budgeted investment income for the year is estimated at £499,900. As all the Council’s surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

22. The Council confirms compliance with its Treasury and Prudential Indicators for 2017/18, which were set on 24 February 2017 as part of the Council’s Treasury Management Strategy Statement.

23. Performance for the first half of the year is shown in Appendix D. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

RISK ASSESSMENT

24. In the current economic climate, there are risks that financial institutions holding Council investments could default and be unable to fulfil their commitments to repay the sums invested with them.

25. To help mitigate this risk, the Council maintains a list of approved institutions based on a grading system operated by the Council's treasury management advisers. Maximum limits are also set for investments with individual institutions.

Appendices:

Appendix A - Treasury Management Strategy 2017/18
Annex A – Original Economic Commentary and Outlook by Arlingclose

Appendix B – Economic Commentary by Arlingclose as at 29 September 2017

Appendix C – Total investment activity to 30 September 2017 with each approved Institution

Appendix D - 2017/18 Indicators - Half-Yearly Performance

Background Papers: None

Reference Papers:

24 February 2017 Executive Report - Treasury Management Policy and Strategy 2016/17

The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management in the Public Services: Code of Practice 2011 Edition.

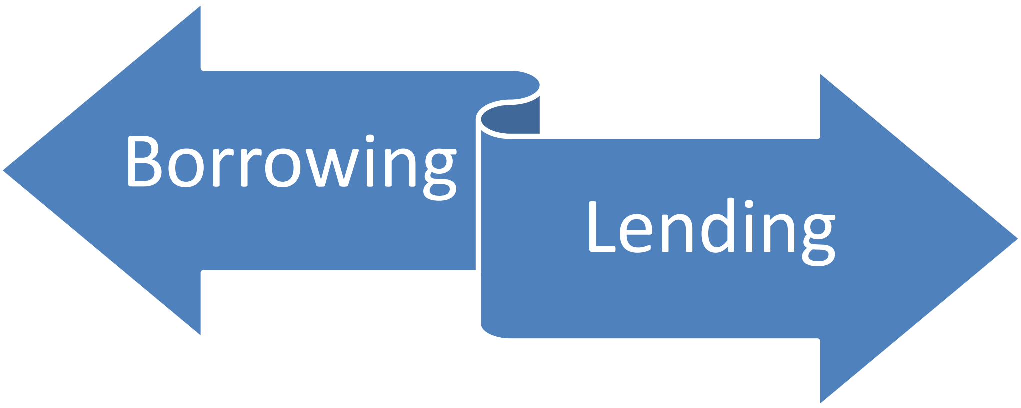
Enquiries:

For further information on this report please contact Caroline Hancock. (Ext 4589)

APPENDIX A

FAREHAM
BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2017/18



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

> *The management of the organisation's 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. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

   a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

   b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CONTENT OF THE ANNUAL TREASURY MANAGEMENT STRATEGY

3. This strategy sets out the expected approach to treasury management activities for 2017/18 in light of the anticipated financial climate. It covers two main areas:

Capital Issues

- Capital Expenditure and Financing
- Prudential Indicators
- Minimum Revenue Provision (MRP) policy

Treasury Management Issues

- Investment Strategy
- Borrowing Strategy
- Treasury Indicators
- Prospects for Interest Rates

4. The content of the Strategy is designed to cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG Investment Guidance.

REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of polices, estimates and actuals. The three reports are:

6. The Executive Commmittee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

TRAINING

7. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

8. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisors and CIPFA.

USE OF TREASURY MANAGEMENT CONSULTANTS

9. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

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

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

CAPITAL ISSUES

CAPITAL EXPENDITURE AND FINANCING

12. The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are **affordable**, **prudent** and **sustainable**, and that treasury decisions are taken in accordance with good professional practice.

PRUDENTIAL INDICATORS

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

1) Level of Planned Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Public Protection	0	0	0	0
Streetscene	543	311	0	0
Leisure and Community	5,407	797	120	0
Health and Housing	1,118	3,619	480	480
Planning and Development	478	13	13	14
Policy and Resources	21,587	20,850	1,520	770
Total General Fund	**29,133**	**25,590**	**2,133**	**1,264**
HRA	**7,472**	**4,791**	**4,556**	**3,211**
Total Expenditure	**36,605**	**30,381**	**6,689**	**4,475**
Capital Receipts	2,365	212	493	230
Capital Contributions	4,972	3,897	650	250
Capital Reserves	8,677	3,246	1,550	1,431
Revenue	2,484	3,344	3,696	2,564
Borrowing	18,107	19,682	300	0
Total Financing	**36,605**	**30,381**	**6,689**	**4,475**

2) The Council's Borrowing Need (Capital Financing Requirement)

This prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

The CFR projections are as follows:

£'000	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
General Fund	8,928	27,129	46,678	46,422
HRA	52,950	52,720	52,490	52,260
Total CFR	**61,878**	**79,849**	**99,168**	**98,682**

3) Financing Costs as % of Net Revenue Stream

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

The positive percentage for the Housing Revenue Account (HRA) reflects the net borrowing costs for the HRA settlement.

	2016/17 Revised	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
General Fund	-5%	-2%	-1%	-1%
HRA	14%	14%	14%	14%
Total	**6%**	**8%**	**8%**	**8%**

4) Incremental Impact of Capital Decisions on Council Tax and Housing Rents

This indicator shows the impact of capital decisions on council tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the proposed capital programme to be approved during this budget cycle.

	2016/17 Revised	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Council Tax Band D	£2.99	£4.53	£0.22	£0.05
Weekly Housing Rent Levels	£0.06	£0.15	£0.12	£0.04

HOUSING REVENUE ACCOUNT (HRA) RATIOS

14. As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA Debt £'000	49,268	49,268	49,268	49,268
HRA Revenues £'000	11,100	11,250	11,070	10,900
Number of HRA Dwellings	2,383	2,406	2,393	2,380
Ratio of Debt to Revenues %	4.43:1	4.38:1	4.45:1	4.52:1
Debt per Dwelling £	£20,675	£20,477	£20,588	£20,700

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

15. Where the Council finances capital expenditure by debt, it must **put aside resources to repay that debt** in later years. The amount charged to the revenue budget for the repayment of debt is known as **Minimum Revenue Provision (MRP)**.

16. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case by case basis depending on the circumstances and with a view to minimising the impact on the council tax payer.

17. Where expenditure is on an asset which will be held on a short term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.

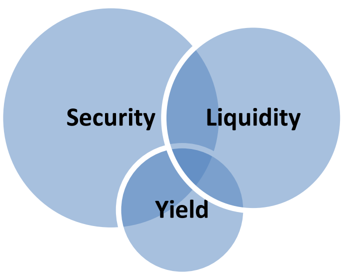
18. No MRP will be charged in respect of assets held within the HRA, in accordance with DCLG Guidance and capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

TREASURY MANAGEMENT ISSUES

INVESTMENTS

Investment Strategy

19. Both the CIPFA Code and DCLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.



20. The Council's objective when investing money is to strike an appropriate balance between **risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

21. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to **negative interest rates** on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

22. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council where practical and reasonable, aims to further diversify into more secure and/or higher yielding asset classes.

Approved Counterparties

23. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£Unlimited 50 years
AAA	£2m 5 years	£4m 20 years	£4m 50 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years
AA	£2m 4 years	£4m 5 years	£4m 15 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years
BBB+	£1m 100 days	£2m 6 months	£1m 2 years
None	£1m 6 months	n/a	£4m 25 years
Pooled Funds	£4m per fund		

24. Investment limits are set by reference to the lowest published **long-term credit rating** from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

25. Summary of counterparty types:

   a) **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. 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.

   b) **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. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

   c) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities. 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.

   d) **Pooled Funds:** Shares in diversified investment vehicles consisting of the 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.

26. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks) and 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), subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

Risk Assessment and Credit Ratings

27. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity 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, and
   - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

28. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

29. 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.

30. The following **internal measures** are also in place:

- Investment decisions formally recorded and endorsed using a Counterparty Decision Document.
- Monthly officer reviews of the investment portfolio and quarterly reviews with the Chief Executive Officer.

31. Where cash flows determine it necessary, the **Council's bankers, NatWest**, (part of the RBS group) will be used on **an unlimited basis**. If their credit quality is reduced, the Council will continue to use their banking services but no investments will be placed with them.

Specified Investments

32. The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- **due to be repaid within 12 months** of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  a) the UK Government,
  b) a UK local authority, parish council or community council, or
  c) a body or investment scheme of **"high credit quality"**.

33. The Council defines "high credit quality" organisations and securities as those having a 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.

Non-specified Investments

34. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to **long-term investments**, i.e. 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 on high credit quality**. Limits (per counterparty) on non-specified investments are shown in the table below.

	Cash limit
Total long-term investments	£4m
Total investments without credit ratings or rated below A-	£2m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£10m

Investment Limits

35. The Council's revenue reserves available to cover investment losses are forecast to be £16 million on 31st March 2017. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. 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.

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country
Unsecured investments with Building Societies	£2m in total
Money Market Funds	£20m in total

Liquidity Management

36. The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis 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.

Investment Treasury Indicator and Limit

37. Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

£M	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Principal sums invested > 364 days	17	2	2	3

BORROWING

Current Portfolio Position

38. The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement), highlighting any under or over borrowing.

£'000	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt at 1 April	44,826	45,626	65,308	65,608
Expected change in debt	800	19,682	300	0
Gross Debt at 31 March	**45,626**	**65,308**	**65,608**	**65,608**
Capital Financing Requirement (CFR)	61,878	79,849	99,168	98,682
Under/(Over) Borrowing	**16,252**	**14,541**	**22,560**	**33,076**
CFR for last, current and next 2 years	**339,577**	**375,558**	**392,712**	**389,657**

39. The Council is currently maintaining **an under-borrowed position**. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

40. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years.

41. The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the budget report.

Treasury Indicators: Limits to Borrowing Activity

42. The treasury indicators includes two limits to borrowing activity:

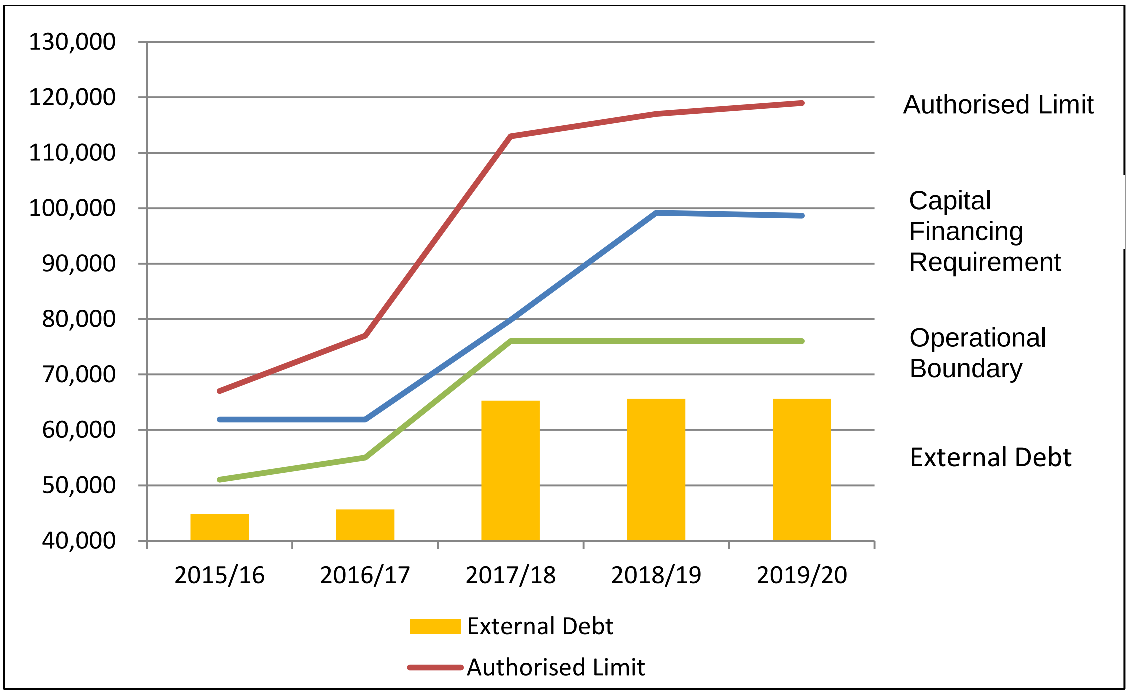
    1) The **operational boundary** is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

    2) The **authorised limit** is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

43. The limits are:

£'000	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Operational Boundary				
Borrowing	50,000	70,000	70,000	70,000
Other long term liabilities	5,000	6,000	6,000	6,000
Total	**55,000**	**76,000**	**76,000**	**76,000**
Authorised Limit				
Borrowing	70,000	105,000	109,000	111,000
Other long term liabilities	7,000	8,000	8,000	8,000
Total	**77,000**	**113,000**	**117,000**	**119,000**

44. The graph below shows the projections for the CFR and borrowing limits:



45. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

£'000	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA Debt Cap	56,851	56,851	56,851	56,851
HRA CFR	52,951	52,721	52,491	52,261
HRA Headroom	**3,900**	**4,131**	**4,360**	**4,590**

Borrowing Strategy

46. The Council's main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of those costs**

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.

47. The Council has been in a debt free position for the General Fund for many years mainly due to having sufficient capital reserves to meet the Council's capital programme. However this position will change over the coming years as borrowing is required for large capital schemes at Daedalus and new property investment opportunities.

48. 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.

49. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

50. Our treasury advisors 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 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

51. Alternatively, the Council may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

52. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

Sources of Borrowing

53. The approved sources of long-term and short-term borrowing are:
    - Public Works Loan Board (PWLB) and any successor body.
    - Any institution approved for investments, including other local authorities.
    - Any other bank or building society authorised to operate in the UK.
    - UK public and private sector pension funds (expect the Hampshire County Council Pension Fund).
    - Capital market bond investors.
    - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

54. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
    - Operating and finance leases
    - Hire purchase

- Private Finance Initiative
- Sale and leaseback

55. The Council has previously raised all of its long-term borrowing from the PWLB but it will investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Borrowing in Advance of Need

56. 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.

57. The total amount borrowed will not exceed the authorised borrowing limit of £77 million. 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

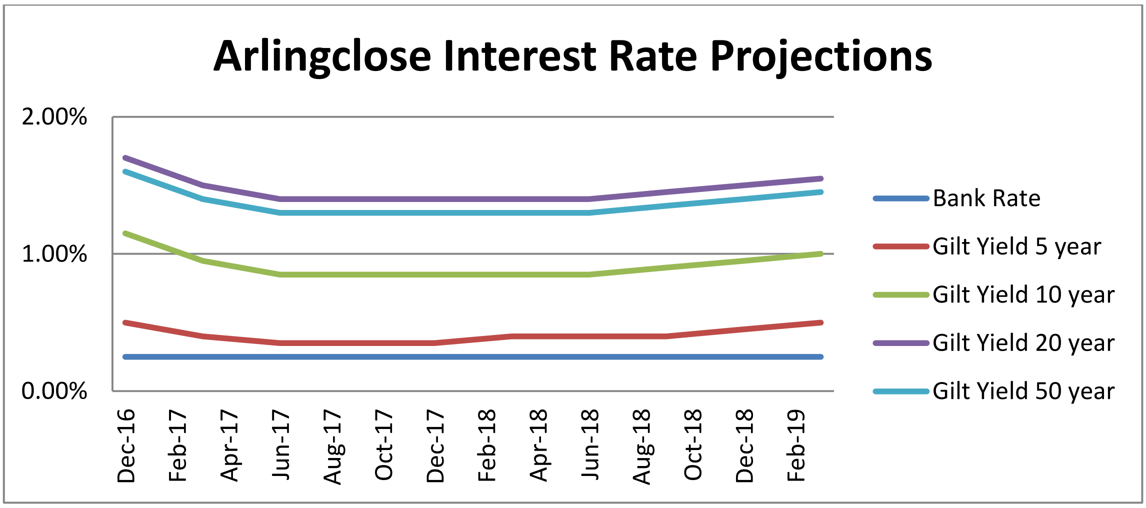
Debt Rescheduling

58. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set 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 cost saving or a reduction in risk.

PROSPECTS FOR INTEREST RATES

59. The Council's Treasury Management Consultants assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

60. The following graph and commentary gives the Arlingclose's central view on interest rates and economic update.



61. Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

62. The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

63. Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

TREASURY MANAGEMENT LIMITS ON ACTIVITY

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

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

65. The treasury indicators and limits are:

Upper limits on interest rate exposures	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	%	**%**	**%**	%
- Upper limit on variable interest rate exposures	25	25	25	25
- Upper limit on fixed interest rate				

exposures	100	100	100	100
Maturity structure of borrowing		**Upper Limit**		
	%	**%**	**%**	%
- Loans maturing within 1 year	25	25	25	25
- Loans maturing within 1 - 2 years	25	25	25	25
- Loans maturing within 2 - 5 years	25	25	25	25
- Loans maturing within 5 - 10 years	50	50	50	50
- Loans maturing in over 10 years	100	100	100	100

Other Items

66. There are a number of additional items that the Council is obliged by CIPFA or DCLG to include in its Treasury Management Strategy.

67. **Policy on Use of Financial Derivatives:** 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.

68. 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.

69. **Policy on Apportioning Interest to the HRA:** On 28th March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out the of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.

70. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.

71. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

72. **Financial Implications:** The budget for investment income in 2017/18 for the General Fund is £499,900 and the HRA is £118,000 and the budget for debt interest paid in 2017/18 is £1.86 million for the HRA. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

EXTERNAL CONTEXT BY ARLINGCLOSE

Economic Background

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit Outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

Interest Rate Forecast

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely.

Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.t

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE

Economic Backdrop: Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.
In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the

Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial Markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit Background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

APPENDIX C

INVESTMENT ACTIVITY UP TO 30 SEPTEMBER 2017

Investments	Externally Managed £'000	Internally Managed £'000	Call Accounts £'000	Money Market Funds £'000	Total £'000
Clearing Banks					
Royal Bank of Scotland (incl Nat West)	2,000		4,450		6,450
Lloyds Bank		4,000			4,000
Other Banks					
Close Brothers	1,000	4,000			5,000
Santander UK			4,000		4,000
Svenska Handelsbanken			2,000		2,000
Building Societies					
Nationwide		4,000			4,000
Coventry		2,000			2,000
National Counties		2,000			2,000
Money Market Funds					
Standard Life Sterling Liquidity				23,000	23,000
Legal and General Sterling				14,950	14,950
Total Investment Activity	**3,000**	**16,000**	**10,450**	**37,950**	**67,400**

Notes

- **Externally managed** investments are fixed term deposits managed by Tradition UK Ltd. The broker determines the most appropriate investment option within the criteria set by the Council and in consultation with officers, and then places the deal with the financial institution. This service came to an end in September 2017.
- **Internally managed** investments are fixed term deposits managed by Council officers.
- **Call accounts** are instant access accounts with NatWest and notice accounts with Santander UK and Svenska Handelsbanken.
- **Money Market Funds** are instant access investment funds which are in cash or cash equivalents such as government bonds and commercial paper. These funds spread investments through many institutions. This diversity and high credit quality give the funds an AAA rating.

APPENDIX D

2017/18 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	Original Estimate £'000	Actual to 30 Sept £'000
Public Protection	0	0
Streetscene	311	35
Leisure & Community	797	753
Housing	3,619	247
Planning & Environment	13	677
Policy & Resources	20,850	10,833
Total General Fund	**25,590**	**12,545**
HRA	**4,791**	**963**
Total Expenditure	**30,381**	**13,508**
Capital Receipts	212	115
Capital Grants	3,897	2,525
Capital Reserves	3,246	1,580
Revenue	3,344	802
Internal Borrowing	19,682	8,486
Total Financing	**30,381**	**13,508**

Expenditure to 30 September is within the overall original budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process to take account of carry forwards from 2016/17 and new schemes approved during the year.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

	Estimate £'000	Actual to 30 Sept £'000
General Fund	27,129	32,556
HRA	52,720	51,141
Total CFR	**79,849**	**83,697**

The CFR is slightly higher than projected due to internal borrowing for Daedalus capital expenditure.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

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 financing costs, net of investment income.

The positive percentage for the Housing Revenue Account (HRA) reflects the net borrowing costs for the HRA settlement.

	Estimate	Actual to 30 Sept
General Fund	-2%	-18%
HRA	14%	15%
Total	**8%**	**9%**

4) Incremental Impact of Capital Investment Decisions

ON TRACK

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 the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

	Estimate	Actual to 30 Sept
Council tax band D	£4.53	£1.54
Weekly housing rent levels	£0.15	£0.28

5) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	Estimate	End of Year Forecast
HRA debt £'000	49,268	49,268
HRA revenues £'000	11,250	12,211
Number of HRA dwellings	2,383	2,383
Ratio of debt to revenues %	4.43:1	4.03:1
Debt per dwelling £	£20,675	£20,675

TREASURY INDICATORS

6) Investments - Principal Sums Invested for Periods Longer than 364 days

ON TRACK

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

£M	Estimate	Actual
Principal sums invested > 364 days	2	0

None of the Council's investments are currently placed for longer than 364 days to allow cash to be available for schemes in the capital programme that require internal borrowing.

7) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt 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. This is a key indicator of prudence. The indicator shows that total debt is expected to remain below the CFR during the forecast period.

£'000	Estimate £'000	Actual to 30 Sept £'000
Debt at 1 April	45,626	41,828
Expected change in debt	19,682	477
Gross Debt at 31 March	**65,308**	**42,305**
Capital Financing Requirement (CFR)	79,849	83,697
Under/(Over) Borrowing	**14,541**	**41,392**
CFR for last, current and next 2 years	**375,558**	**197,850**

8) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

	Limit £'000	Actual £'000
Operational Boundary		
Borrowing	53,000	42,305
Other long-term liabilities	5,000	0
Total	**58,000**	**42,305**
Authorised Limit		
Borrowing	77,000	42,305
Other long-term liabilities	7,000	0
Total	**84,000**	**42,305**

Total debt at 30 September was £42.3 million. During the first half of 2017/18 the Authorised Limit of £113 million was not breached at any time.

9) Interest Rate Exposures

ON TRACK

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed are, shown in the table below.

Upper limits on interest rate exposures	Limit %	Actual %
Upper limit on variable interest rate exposures	25	0
Upper limit on fixed interest rate exposures	100	100

10) Maturity Structure of Borrowing

ON TRACK

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

Maturity structure of borrowing	Upper Limit %	Actual %
Loans maturing within 1 year	25	5
Loans maturing within 1 - 2 years	25	0
Loans maturing within 2 - 5 years	25	0
Loans maturing within 5 - 10 years	50	0
Loans maturing in over 10 years	100	95

The £40m HRA loans represent 95% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium and the Charity of Miss Winifred Nellie Cocks which are treated as temporary loans. These represent 5% of loans maturing within 1 year.

Agenda Item 8

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date **27 November 2017**

Report of: **Head of Democratic Services**

Subject: **GENERAL DATA PROTECTION REGULATIONS (GDPR)**

SUMMARY

The General Data Protection Regulations (GDPR) come into effect on 25th May 2018. These Regulations will give individuals more control over their personal data and how this is collected, managed and processed. Members of the Committee will receive a presentation outlining these changes and how they affect Fareham Borough Council.

RECOMMENDATION

It is recommended that the committee notes:

(a) the contents of this briefing paper; and

(b) the contents of the presentation.

INTRODUCTION

1. The Committee will receive a presentation from the Head of Democratic Services on the General Data Protection Regulations (GDPR) and this report provides Members with a broad overview prior to the presentation.

2. The General Data Protection Regulations (GDPR) will apply in the UK from the 25 May 2018.

3. The GDPR applies to both data “controllers” and data “processors”, with the definitions being broadly the same as under the Data Protection Act (DPA) currently and it applies to personal data – like the Data Protection Act – but gives a more expansive definition.

4. Under the Data Protection Act, there is a category for sensitive personal data. Under the GDPR, this is referred to as “Special Categories of Personal Data”.

5. Data Processors have legal obligations placed on them by the GDPR. For example, records of personal data and processing activities must be maintained and these will have significantly more legal liability if the Council were to experience a data breach.

6. The GDPR places more obligations on Data Controllers. In any event where Fareham Borough Council acts as Data Controller, we must ensure any contracts which have which processors are GDPR compliant. For example, where we outsource work to third parties on behalf of the Council.

7. The Data Protection Bill, which is currently going through Parliament, has merged the Data Protection Act 1998, the General Data Protection Regulations and the Law Enforcement Directive into one large Bill.

8. The Data Protection Bill will also ensure the UK retains the Information Commissioner as the UK’s independent data protection regulator and will give the Commissioner the right powers to ensure data subjects are safeguarded appropriately.

9. There will also be changes to the way in which data controllers must inform the Commissioner and, in some cases, individuals of data breaches.

10. The Bill will also create new offences, such as alteration of personal data to prevent disclosure, as well as modernise some of the offences seen within the Data Protection Act 1998.

CONCLUSION

11. The implementation of the General Data Protection Regulations will give data subjects more control over their data which is held by data controllers and processors.

12. Work is underway with the Council to implement the necessary changes to ensure compliance with the Data Protection Bill and the General Data Protection Regulations.

Enquiries:

For further information on this report please contact Samantha Wightman (Ext 4594)

Agenda Item 10

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **27 November 2017**

Report of: **Head of Finance and Audit**

Subject: **QUARTERLY AUDIT REPORT**

SUMMARY

This report provides the assurances arising from the latest internal audit work and gives an update on progress being made with the delivery of the audit plans.

RECOMMENDATION

It is recommended that the committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

FINALISING PREVIOUS AUDIT PLANS

2. The current status of the 10 audits remaining from the previous Audit Plans is detailed in Appendix One. One more has been finalised and further work has been carried out on another 2 to facilitate finalisation of the work.

DELIVERY OF 2017/18 AUDIT PLAN

3. Work is progressing on the delivery of the current year's audit plan, as noted in Appendix Two. A further 3 audits have now been finalised.

FINDINGS FROM COMPLETED AUDITS

4. The four latest final reports that have been issued are listed below with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Street Furniture 2017/18	Strong	-	1	-
Recruitment and Selection 2015/16	Reasonable	-	3	-
Pest Control 2017/18	Reasonable	-	3	2
Dog Control 2017/18	Limited	-	7	-

5. Detail of the recommendations made and the actions to be taken is provided in Appendix Three.

RISK ASSESSMENT

6. There is a risk of the non -collection of income and over-payment of invoices arising from the audit of the Dog Control service. The service is now introducing monthly reconciliations to address these risks.

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2017/18 Audit Plan

Appendix Three - Findings from the Latest Completed Audits

Appendix Four - Reference Tables

Background Papers: None

Reference Papers:

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on the Contractor Annual Audit Plan 2014/15

Report by the Director of Finance and Resources to the Audit and Governance Committee on 16 March 2015 on the Internal Audit Strategy and Annual Audit Plan 2015/16

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX ONE

Update on Outstanding Audits from Previous Plans

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work.

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
2014/15										
Income Collection & Banking	Fundamental	15	Stage 8							
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
2015/16										
Recruitment and Selection	Corporate, Specialist, Governance (V)	15	**Stage 10**	Reasonable	-	3	2	-	-	-
Land Charges	Service and Systems – HR	12	Stage 8							
Contract Deeds Management	Thematic Review	15	Stage 4							
2016/17										
Daedalus Project	Service and Systems – High Risk	12	Stage 8							
Cloud Based Computing	Computer	15	Stage 8							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working project		Stage 5							

* A key to the information in this column is given in Appendix Four.

** V denotes this audit was covering a service which had been subject to a Vanguard intervention

Audits in the 2017/18 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
OPINION AUDITS											
1	Main Accounting System and Budgetary Control	Fundamental System	11	Stage 8							
2	Accounts Receivable		15	Stage 2							
3	Income Management		12								
4	Housing Benefits		10	Stage 1							
5	Leisure Centre Contracts	Corporate /contract	10	Stage 1							
6	Ferneham Hall including databox	Service and Systems – High Risk	20	Stage 7							
7	Commercial Estates		15	Stage 8							
8	Property Maintenance & Inspections at Non-Housing Buildings		15	Stage 1							
9	Developers Contributions		15								
10	Homelessness (V)		15	Stage 5							
11	**Dog Control (New)**	Service and Systems - Other	6	**Stage 10**	Limited	-	7	1	-	-	-
12	**Pest Control (New)**		6	**Stage 10**	Reasonable	-	3	2	1	1	2
13	**Street Furniture (New)**		5	**Stage 10**	Strong	-	1	-	-	-	-
14	Pensions		10	Stage 1							
15	Chipside (Parking IT system)	Computer	12								
16	**Multiple Parking Permits at Single Person Discount Properties**		3	**Stage 10**	Not applicable	-	-	-	-	-	
	Contingency		15								
	In-house team support		35								
	Total Planned Time		**230**								

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
WIDER WORK											
17	IT Procurement and budgets	Thematic Review									
18	Employee Performance Management	Joint working project		Stage 4							
19	Data Protection	Joint working project		Stage 4							
20	Contract Procedure Rules	Joint working project		Stage 4							
21	Risk Inspections of Public Areas	Thematic Review									
22	Use of depot storage areas and security of plant, equipment and materials.	Joint working project									
23	Building Service Invoicing and Stock Control (part 2)	Post investigation systems work		Stage 1							
24	Outdoor Recreation Follow Up	Follow Up									

Findings from the Latest Completed Audits

APPENDIX THREE

Audit Title	**Street Furniture**	**Overview of Subject:** Street furniture consists of community street lighting, street name plates, bus shelters, litter bins, bollards and memorial benches which are managed by the Street Scene team. War Memorials and Public Clocks are managed by the Estates Team. The service costs approximately £100,000 a year.
Year of Audit	**2017/18**	
Type of Work	Opinion audit	
Assurance Opinion Given	**Strong**	
Direction of Travel	No previous audit	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚐)	Implemented	Cancelled	Non Implemented
Accurate and up to date records			-	-	-	-	-	-
Accuracy of fees charged, payments made and correct authorisation			-	-	-	-	-	-
Correct allocation of income			-	-	-	-	-	-
Arrears and recovery			-	-	-	-	-	-
Correct charges to the materials budget			-	-	-	-	-	-
Street name plates			-	-	-	-	-	-
Street lighting			-	1	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Unclear invoices from Hampshire County Council –** The invoices received from Hampshire County Council do not contain sufficient information for the Council to calculate if the invoices are accurate and in line with the contractual agreement. Rough estimates indicated that the maintenance charge was more than expected but the energy charges were less than expected. The number of street lights being charged for also did not agree to FBC records which could indicate that not all the lights are being maintained. HCC is to be contacted for more details to support the calculations.

Audit Title	**Recruitment and Selection**
Year of Audit	**2015/16**
Type of Work	Opinion audit
Assurance Opinion Given	**Reasonable**
Direction of Travel	⇔2007/8

Overview of Subject: Fareham Borough Council recruits approximately 20-50 new permanent and fixed term starters a year, and a further 20 agency workers.

The recruitment and selection process was subject to a Vanguard review during 2013/14 and consequently each recruitment exercise is designed separately involving the manager and an assigned Human Resources Officer and considers both the needs of the service and candidates.

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential	Important (▲)	Advisory	Implemented	Cancelled	Not Implemented
Finding People			-	1	-	-	-	-
Assessing their Fit			-	1	2	-	-	-
Insurance Fidelity Guarantee			-	1	-	-	-	-
Offer and Hire			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Keeping Evidence of Relationship Declarations** - Testing of declaration of interests of applications found that it was not possible to identify what was declared by 3/10 of the applications. This was considered to be the result of documents being missed during the scanning process and action has been taken to strengthen that process.
Important	**Agency Framework Agreements and Temporary Staff Checks** – No up to date agreement was in place for 1/3 agency firms tested. The agreement needs to stipulate the vetting checks of employees they are required to be carried out. Confirmation has been obtained that the appropriate vetting has been carried out by that agency, and officers are looking into getting a new agreement in place.
Important	**Procedures to alert the employment of agency employees outside of the main framework -** The Council has a framework agreement in place for the employment of most agency employees. The Human Resources department check that all agencies on the framework carry out the vetting procedures required as part of our Fidelity Guarantee Insurance. However, actions are need to flag up any employment of temporary employees outside of this agreement so that the Human Resources team can carry out the same checks on the suppliers.

Audit Title	**Pest Control**	**Overview of Subject:** The Pest Control Service is administered by the Fareham and Gosport Councils under the Environmental Health Partnership. There are approximately 1,200 pest control treatments a year in Fareham of which 73% are for rats and mice. Operational duties are carried out by two Animal and Pest Control Officers. One of the officers is new in post and has undergone qualification training. A contractor has therefore been utilised to ensure continuity of service during that period. Expected annual expenditure for the service is £56,700 and expected income £4,000. New fees and charges have been recently approved and are due to be implemented with effect from 1st October 2017.
Year of Audit	**2017/18**	
Type of Work	Opinion audit	
Assurance Opinion Given	**Reasonable**	
Direction of Travel	⇔ 2012/13	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚐)	Implemented	Cancelled	Non Implemented
Scheduling of works			-	-	1	-	-	-
Secure Collection and Transfer of Income			-	-	-	1	-	-
Supporting Evidence and Checks for People Eligible for Discounts			-	1	-	-	-	-
Raising of Sundry Debtors Accounts including Recharges			-	1	1	-	1	-
Monitoring of Employees / Contractors and Works Undertaken			-	-	-	-	-	-
Stock Control and Ordering			-	-	-	-	-	-
Compliance with 1949 and 1986 Legislation			-	-	-	-	-	-
Monitoring of Need for Repeat Treatments			-	-	-	-	-	-
Management of Commercial Contracts			-	-	-	-	-	-
Control over Refunds			-	-	-	-	-	-
Reconciliation of Ocella to Efinancials			-	1	-	-	-	2

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Inconsistent Charging -** There was a period of time where income for pest control treatments was not being collected due to a turnover of staff and use of the contractor. This will increase with importance once the new chargeable fees come into place. The service is reviewing the staff structure to establish how monitoring of income duties can be assigned.
Previous Important	**Reconciliation of Income collection -** No reconciliation between job records and income collected is being carried out. The introduction of a new fee table into the IT system is expected to make such reconciliations easier.
Important	**Evidence to Support Benefits –**13/15 free treatments claimed in the period tested did not have any benefits evidence to support eligibility to free treatment. A field is to be added to the work sheets which will include the benefits type being received and the reference.
Important	**Non-standard charges –** It was not possible to confirm that the correct rate had been charged for 2/6 charges collected by invoice. A field is to be added to the job sheets to explain any variances from the published fees and changes
Previous Important	**Checks that all receipts are accounted for –** Job records are still not being reviewed to ensure that receipt numbers are entered for chargeable fees, they run sequentially and that gaps are investigated.

Audit Title	**Dog Control**	**Overview of Subject:** The Environmental Health Partnership provides the Dog Control Service for both Fareham Borough Council and Gosport Borough Council. There were 164 stray dog incidents recorded for the 2 Councils across a 14 month period and 3 kennels were used for kennelling the dogs. This audit was carried out by the Gosport Borough Council audit team and so is in their style.
Year of Audit	**2017/18**	
Type of Work	Opinion audit	
Assurance Opinion Given	**Limited**	
Direction of Travel	No previous opinion	

Risks Tested	Risk Assessment based on adequacy and Effectiveness of Controls	New Recommendations Raised			Previous Rec Implementation (E and I only)		
		Essential (💣)	Important (▲)	Advisory (⚐)	Implemented	Cancelled	Not Implemented
Staff / Volunteers are injured by a dog		-	1	-	-	-	-
Dogs are diseased or not kept in good conditions affecting their health and staff health and potential bad publicity.		-	-	-	-	-	-
Dogs and /or dog owners causing a nuisance in the Borough, leading to public issues		-	-	-	-	-	-
Dogs are run over, injured or lost.		-	-	-	-	-	-
Theft of income paid in		-	2	-	-	-	-
Incorrect fees are charged		-	2	1	-	-	-
Late payment of fees resulting in cash flow issues		-	-	-	-	-	-
Debtors do not pay.		-	-	-	-	-	-
Incorrectly invoiced for kennelling and vets fees.		-	2	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Checking kennelling invoices –** There was limited checking carried out of the invoices being paid for kennelling fees, and it was not possible to reconcile these to the case management system during the audit. A checking mechanism is now to be introduced.
Important	**Checking kennelling costs are recharged to the dog owners –** There was no system to check that kennelling fees are recharged back to the dog owner

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	and there appeared to be a large number that had not been recharged. Monthly reconciliations are now to be introduced.
Important	**Timing of Stray Dog records** – Records of stray dogs cases are not always created on the management system at the time the call is received. A way of achieving this is to be discussed in the team.
Important	**Waiving of Charges** – A procedure is needed whereby senior managers agree any waiving of charges that should be made to the dog owners.
Important	**No reconciliation to receipts issued –** There was no reconciliation being carried out of manual receipts being issued for income collected in person from owners such that 1 receipt was found to have been banked 14 months after the month the money was collected, and the money for another receipt could not be traced due to missing information on the receipt.
Important	**Records of Receipt Books –** The department does not keep records of what receipt books they have been issued with and therefore which sets of receipts they are expecting income from. This information is only held by the issuing department.
Important	**Procedure Notes –** There are 4 sets of procedure notes for the service which has not been updated for a number of years.

APPENDIX FOUR

Reference Tables

1. Scale of Assurance Opinions

Strong	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

2. Scale of Recommendation Priorities

Essential	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
Important	A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
Advisory	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

3. Stages of An Audit Assignment

Stage 1	The Audit teams have started drawing up the scope of coverage for the assignment.
Stage 2	A scoping meeting has been held with the Sponsor in the client service.
Stage 3	The Terms of Reference for the Assignment have been finalised.
Stage 4	The Auditor has started to deliver the agreed scope of work.
Stage 5	The work completed by the Auditor is being reviewed by their manager.
Stage 6	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
Stage 7	Any additional testing identified has been completed.
Stage 8	The draft report has been received by the in-house audit team.
Stage 9	The draft report has been issued to the Service Sponsor and is awaiting their response.
Stage 10	The final report has been issued.

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date **27 November 2017**

Report of: **Director of Finance and Resources**

Subject: **REVIEW OF WORK PROGRAMME**

SUMMARY

This report reviews the current work programme for the Committee.

RECOMMENDATION

It is recommended that the work programme for the rest of the municipal year, as shown in Appendix A, be approved.

INTRODUCTION

1. This report brings the latest work programme for review by the Committee.

WORK PROGRAMME 2017/18

2. The work programme for the year is shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme to date.

3. There have been two changes to the programme, as follows:

   (a) An extra item has been added to the November agenda to update the Committee on the new General Data Protection Regulations that come into effect in May 2018.

   (b) The revised Contract Procedure Rules and the Financial Regulation for Procurement, due at the November meeting, have been postponed. However, an extra item has been added to the November agenda to update the Committee on the work that has been carried out reviewing the Council's procurement process which will influence the changes to be made to the Council's rules. An update on the progress made on revising the rules has been scheduled for the March meeting.

RISK ASSESSMENT

4. There are no significant risk considerations in relation to this report.

CONCLUSION

5. The work programme in place is appropriate to meet the responsibilities of the Committee.

Appendices: Appendix A – Audit and Governance Committee Work Programme 2017/18 as at November 2017.

Background Papers: None

Reference Papers: Report to the Audit and Governance Committee – 13 March 2017 - Annual Audit and Governance Committee Report, Work Programme and Training Plan

Enquiries:

For further information on this report please contact Elaine Hammell (Ext 4344)

APPENDIX A

WORK PROGRAMME FOR 2017/18

Committee Function and Report Subject		Frequency	Last Covered	July 2017	September 2017	November 2017	March 2018
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2017-18	Completed	Completed	Completed	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2016-7				
Review of the Constitution		As needed	2016-7				
ETHICAL FRAMEWORK AND STANDARDS							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2015-6				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2016-17		Completed		
Member Training and Development	Review of Members Training and Development Programme	As needed	2015-16				
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2016-17				
	Annual Governance Statement	Annual	2017-18	Completed			
Key Policy	**Review of Financial Regulations**	3 yearly	2017-18	Extra report		Postponed	YES
	Review of Contract Procedure Rules	3 yearly	2013-14			Postponed	YES
	Vanguard review of the Council's procurement process	As needed	2017-18			Extra (verbal update)	
	Treasury Management Policy and Strategy	Annual	2016-17			YES	YES- Policy and indicators
Risk Management	Policy	As needed	2016-17				
	Risk Management Monitoring Reports	6 monthly	2014-15		Completed		YES
	Business Continuity	3 yearly	2014-15				
	Specific Risk Management topics	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2016-17				
	Counter Fraud Progress	Annually	2016-17	Postponed to Sept	Completed		

Committee Function and Report Subject	Frequency	Last Covered	July 2017	September 2017	November 2017	March 2018
INTERNAL AUDIT ASSURANCE						
Internal Audit Strategy	3 yearly	2014-15				
Internal Audit Annual Plan	Annual	2015-16				**YES**
Quarterly Audit Reports	Quarterly	2017-18	**Completed**	**Completed**	**YES**	**YES**
Head of Audit's Annual Opinion	Annual	2017-18	**Completed**			
EXTERNAL ASSURANCE						
Update on Arrangements for Appointment of External Auditors	As needed	None		**Completed (verbal update)**		
Annual Plan and Fee	Annual	2016-17				**YES**
External Audit Progress Update	Annual	2017-18	**Completed**			
Annual Audit Letter	Annual	2016-17			**YES**	
Annual Certification Report	Annual	2016-17				**YES**
Specific reports from inspection agencies	As needed	2014-15 (RIPA)				
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2017-18	**Completed**	**Completed**		
External Audit – Audit Results Report	Annual	2017-18		**Completed**		
OTHER						
Updates on legal issues	As needed	2014-15			**Extra - GDPR**	
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
		Number of Items	7	8	6	9