

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 24 November 2014

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor G Fazackarley (Vice-Chairman)

Councillors P J Davies
Miss T G Harper
D L Steadman
P W Whittle, JP
N R Gregory

Deputies: L Keeble
D J Norris



1. Apologies

2. Minutes (Pages 1 - 6)

To confirm as a correct record the minutes of the Audit Committee meeting hold on 22 September 2014.

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 Auditors Annual Audit Letter (Pages 7 - 20)

To consider a report by the Director of Finance and Resources on the External Auditors Annual Audit Letter.

7. Implementation of Treasury Management Policy and Strategy (Pages 21 - 52)

To consider a report by the Director of Finance and Resources on the Implementation of the Treasury Management Policy and Strategy.

8. Quarterly Audit Report (Pages 53 - 64)

To consider a report by the Director of Finance and Resources on the Quarterly Audit Report.

9. Counter Fraud Progress (Pages 65 - 72)

To consider a report by the Director of Finance and Resources on Counter Fraud Progress.

10. Review of Financial Regulations (Pages 73 - 90)

To consider a report by the Director of Finance and Resources which reviews Financial Regulations

11. Update on Audit Recommendations (Pages 91 - 94)

To consider a report by the Director of Finance and Resources on an update on Audit Recommendations.

12. Review of Committee Work Programme (Pages 95 - 98)

To consider a report by the Director of Finance and Resources on a review of the Committee's Work Programme.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk

14 November 2014

**For further information please contact:
Democratic Services, Civic Offices, Fareham, PO16 7AZ
Tel:01329 236100
democraticservices@fareham.gov.uk**

FAREHAM

BOROUGH COUNCIL

Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

Date: Monday, 22 September 2014

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor T G Knight (Chairman)

Councillor L Keeble (Vice-Chairman)

Councillors: P J Davies, Miss T G Harper, D L Steadman, P W Whittle, JP and N R Gregory

**Also
Present:**



1. APOLOGIES

There were no apologies of absence.

2. MINUTES

The Chairman addressed the Committee on this item and requested an update from the Head of Democratic Services on item 12 of the previous minutes – Review of Members Training & Development and Determination of Programme. The Head of Democratic Services confirmed that discussions have been held with the ICT department regarding how members will be able to access the training directory. Once in place, training will be provided to all members on how to access and use the directory.

RESOLVED that the minutes of the meeting of the Audit and Governance Committee held on 23 June 2014 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed to the meeting Kate Handy and Martin Young from Ernst & Young (External Auditors).

The Chairman advised that in accordance with the recent set legislation, members of the public and press are able to audio and video record all meetings held in public by Fareham Borough Council.

The Chairman confirmed that there had been no requests to film any part of the meeting, however, stated that should any members of the public or press wish to do so, they must respect the wishes of other members of the public present who do not wish to be filmed.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. DEPUTATIONS

There were no deputations made at this meeting.

MATTERS SUBMITTED FOR CONFIRMATION

6. UPDATE TO STANDING ORDERS FOLLOWING THE OPENNESS OF LOCAL GOVERNMENT BODIES REGULATIONS 2014

The Committee considered a report by the Monitoring Officer on an update to Standing Orders following the Openness of Local Government Bodies Regulations 2014.

Members discussed this item at length and agreed that wording for the Standing Order 59.3 should read 'The Mayor or Chairman of the meeting will have absolute discretion to terminate or suspend filming/recording of the meeting, if in their opinion, continuing to do so would prejudice or disrupt proceedings at the meeting'.

RESOLVED that the Committee:-

- a) recommends to Council, subject to the amendment of wording to Standing Order 59.3 above, that the updates to Part Four of the Constitution – Standing Orders with Respect to Meetings, as detailed in paragraph 8 of the report be approved; and
- b) recommends to Council that the draft protocol on the recording of public meetings, as set out in Appendix A to the report, be approved and that the Monitoring Officer be delegated authority to update the protocol to meet operational needs.

DECISIONS MADE UNDER DELEGATED POWERS

7. OVERVIEW OF COMPLAINTS AGAINST THE COUNCIL

The Committee considered a report by the Director of Finance and Resources on an overview of complaints against the Council.

Members debated this item at length and several of them expressed concern over the length of time it had taken for the breach of the member's code of conduct, as set out in paragraphs 18-21 of the report, to have been reported to the Committee. Members were advised that the report is an annual report to the Committee which is why it has been reported to the Committee at this meeting. Councillor Whittle asked that for future breaches of the code of conduct be reported to the earliest meeting of the Audit and Governance Committee.

Members also questioned why the Committee were not asked to form a Sub-Committee to deal with the breach of the Code of Conduct. The Solicitor to the Council addressed the Committee on this item and advised members that the breach had been dealt with in accordance with the Council's complaints procedure and Government legislation. He confirmed that he was satisfied with the outcome of the investigation and in the way in which it was handled by the Council.

RESOLVED that the Committee:

- a) notes the content of the report; and
- b) requests that any future breaches to the Members Code of Conduct be reported to the Audit and Governance Committee at the earliest opportunity.

8. STATEMENT OF ACCOUNTS

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

The Committee received a short presentation from the Finance Strategy and Development Manager, which gave a breakdown of the accounts in more simple terms to assist Members with their understanding of the report. Members were also circulated amended figures to Appendix A of the report, for page 69 Operating Leases. Members were informed that the most significant changes to the accounts were regarding the new Business rates Retention Scheme and the new Pensions Accounting Standard.

RESOLVED that the Statement of Accounts for 2013/14, attached as Appendix A, be approved and published by 30 September 2014.

9. ANNUAL GOVERNANCE STATEMENT

The Committee considered a report by the Director of Finance and Resources on the Annual Governance Statement.

Councillor Whittle addressed the Committee on this item and commented on the fact that the Annual Governance Statement had already been pre-signed prior to the meeting and therefore not allowing for the Committee to comment on the documents. The Director of Finance and Resources addressed members to assure them any changes that they identified would be made prior to the final document being published with the Statement of Accounts.

Members requested that in future to promote openness and transparency to the public, no documents awaiting approval will be presented to the Committee pre-signed.

Councillor Keeble requested that a link to where the monthly budgetary control information is published be circulated to Members for future reference and included in the Financial Management section of the Statement this year.

RESOLVED that the Annual Governance Statement for 2013/14, subject to the proposed amendment above, as attached as Appendix C to the report, be approved.

10. EXTERNAL AUDIT ANNUAL RESULTS REPORT 2013/14

The Committee considered a report by the Director of Finance and Resources on the External Audit Annual Results Report 2013/14.

The report was presented by Kate Handy and Martin Young from Ernst and Young (External Auditors). A letter of representation was circulated to members, during this item.

Councillor Whittle enquired as to whether the uncommented misstatements had taken into account the revised figure circulated earlier for the Statement of Accounts. Kate Handy addressed the Committee to confirm that they were already aware of the correction to the Statement of Accounts.

Members were asked to note and agree the contents of the letter of representation which was circulated to them at the meeting.

RESOLVED that the Committee:-

- a) notes the contents of the Annual Governance report, as set out in Appendix A to the report; and
- b) notes and agrees to the letter of representation, circulated to them during the meeting, attached as appendix A to these minutes.

11. EXTERNAL AUDIT ANNUAL FEE LETTER 2014/15

The Committee considered a report by the Director of Finance and Resources on the External Audit Annual Fee Letter 2014/15.

The report was presented by Kate Handy of Ernst and Young (External Auditors) and took questions from members.

RESOLVED that the Committee approves the fees proposed for the External Audit coverage in 2014/15.

12. CORPORATE RISK REGISTER UPDATE

The Committee considered a report by the Director of Finance and Resources on an update of the Corporate Risk Register.

Councillor Keeble addressed the Committee to inform them that he had sought assurance from the CX management team that Risk Managers were not being overloaded with the amount of work that has been assigned to them.

RESOLVED that the content of version 4 of the Corporate Risk Register, attached as Appendix A to the report, be noted.

13. REVIEW OF COMMITTEE WORK PROGRAMME

The Committee considered a report by the Director of Finance and Resources on the Committee's current work programme.

Councillor Knight requested that a training session on the Annual Governance Statement be included onto the Committee's Work Programme.

Councillor Whittle expressed concern over the amount of reports that are scheduled for the November meeting. The Chairman addressed the Committee to inform them that this issue had been raised previously and it was felt that the all of the reports scheduled in the Work Programme are necessary and therefore the Work Programme should not be reduced. The Director of Finance and Resources informed members that he would look into the issue and try to find ways in which the workload could be reduced.

RESOLVED that, subject to the inclusion of the addition of a member training session on the Annual Governance Statement, the work programme for the rest of the year, as set out in Appendix A to the report, be approved.

14. QUARTERLY AUDIT REPORT

The Panel received a report by the Director of Finance and Resources on the Quarterly Audit report.

At the agreement of the Chairman this item was moved to the end of the agenda.

The report was presented by the Head of Audit and Assurance, who took questions from members.

Councillor Whittle asked as if the services which are currently being reviewed under the Council's Vanguard intervention are being audited as they are making significant changes to working practices. The Head of Audit and Assurance addressed the Committee to confirm that all services that are being reviewed under the Vanguard Intervention will be audited, at some point. In some cases the Audit Service are being rolled into the process as significant changes to control are discussed. The first service which is to be fully assessed is the Benefits department as they are near to completion of their review of the Service.

RESOLVED that Committee noted the progress of the Contractor Internal Audit Plan, attached as Appendix A to this report.

(The meeting started at 6.00 pm
and ended at 8.43 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **EXTERNAL AUDITORS ANNUAL AUDIT LETTER**

SUMMARY

This report presents the External Auditor's Annual Audit Letter which summarises the findings from the 2013/14 audit.

RECOMMENDATION

That the Committee notes the contents of the Annual Audit Letter 2013/14 submitted by the Council's external auditors

APPENDIX A - [Annual Audit Letter 2013/14](#)

Enquiries:

For further information on this report please contact Andrew Wannell. (Ext 4620)

Annual Audit Letter

Fareham Borough Council

Year ending 31 March 2014

30 October 2014





Ernst & Young LLP
Wessex House
19 Threefield Land
Southampton
SO14 3QB

Tel: + 44 23 8038 2000
Fax: + 44 23 8038 2001
ey.com

The Members
Fareham Borough Council
Civic Offices
Civic Way
Fareham
Hampshire
PO16 7AZ

30 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Fareham Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Council in the following report:

Fareham Borough Council audit results report
for the year ended 31 March 2014

Issued 11 September 2014 and presented
to the Audit and Governance Committee on
22 September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of the Council for their assistance during the course of our work.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
Enc

Contents

1. Executive summary.....	1
2. Key findings.....	3
3. Control themes and observations	6
4. Audit Fees	7

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued in March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Fareham Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 24 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 11 September 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 24 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission	No issues to report.

Act.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 24 September 2014 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.

We will issue our annual certification report to those charged with governance with respect to the 2013/14 financial year in February 2015.

2. Key findings

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 24 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Provision for NDR Appeals

Issue

- ▶ There have been significant changes in the arrangement for business rates since April 2013. One of the main accounting changes is that individual Council's need to provide for ratings appeals. This includes not only appeals from 1 April 2013 but also claims that relate to earlier periods.

Findings

- ▶ The Council used an external expert to assist in the preparation of the provision for NDR appeals. We evaluated the competence and capability of this expert. We then evaluated their work, considered the methodology adopted and assumptions made and reviewed the source data used.
 - ▶ We benchmarked the value of the Council's appeals provision. The value was slightly higher than the average in the comparator group but within the range of reasonable results.
 - ▶ We identified no indication of management bias in preparing this estimate.
 - ▶ Our overall judgement is that the Council took a reasonable approach to preparing this provision.
-

Significant risk 2: Risk of management override

Issue

- ▶ On all audits we recognise the risk that management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Findings

- ▶ Our audit work identified no matters we needed to report.
-

Other audit risk 1: Daedalus

Issue

- ▶ This £8.3m project entails improvements to the runway, provision of new hangar space and an Innovation Centre for small businesses. A land lease was granted to the Council for the plot on which the Innovation Centre is being constructed.
-

Findings

- ▶ So far as it was complete in 2013/14, we reviewed the accounting treatment of this development. Our work identified no matters we needed to report.
-

Other audit risk 2: Purchase of commercial properties

Issue

- ▶ Under its Commercial Property Investment Acquisition Strategy the Council acquired three commercial properties in 2013/14.

Findings

- ▶ We reviewed the accounting treatment of these property acquisitions and identified no issues to report.
-

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 24 September 2014. We noted the following issues as part of our audit.

Financial Standing

Issue

- ▶ The Council continues to experience challenges from reduced government funding.

Findings

- ▶ We reviewed the Council's medium term financial strategy and the 2014/15 budget, and evaluated the reasonableness of key assumptions. We assessed the Council's arrangements for ensuring financial resilience in the medium to long term. We concluded that arrangements to achieve financial resilience and preparations to manage the impact of further pressures from reduced funding and income streams are sound; and
 - ▶ We reviewed the Council's efficiency plan. The Council has established a savings target of £1.4m for the period 2014/15 to 2016/17. It has already implemented over £0.8m. Further identified savings of over £0.5m are in progress and work is ongoing to identify the remainder of the target. Alongside this the Council is undertaking a fundamental review of operations to streamline procedures and provide a better customer service style.
-

Developments and changes in approach

Issue

- ▶ In line with its corporate priorities, the Council is a key facilitator in several projects such as:
 - ▶ Welborne - the New Community North of Fareham (NCNF);
 - ▶ The development of the Daedalus site;
 - ▶ The Council is to set up a Joint Venture Company to help meet housing needs; and
 - ▶ The Council is purchasing commercial properties to achieve a higher rate of investment return.

Findings

- ▶ We are satisfied that:
 - ▶ The projects have clear links to corporate priorities;
 - ▶ The projects had appropriate project specific governance frameworks in place that link to the Council's overall risk management framework;
 - ▶ The Council has appropriately considered the financial implications of the projects;
 - ▶ The Council has appropriately considered the legality of the projects; and
 - ▶ The Council has appropriately considered the security, liquidity and yield of its property acquisitions.

There were no issues arising from our work that we needed to report.

2.3 Objections received

We received no objections to the 2013/14 accounts from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office on 24 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

2.6 Certification of grants claims and returns

We presented our Annual Certification Report for 2012/13 to those charged with governance on 10 March 2014. We certified 3 claims and returns worth £61,507k. We will issue the Annual Certification Report for 2013/14 in February 2015.

2.7 Use of powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

As part of our audit of the financial statements, 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 communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We had no issues to report for 2013/14.

4. Audit Fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	63,407	63,407	63,407
Certification of claims and returns ¹	22,199	22,199	22,199

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

Notes:

¹ Our fee for certification of grants and claims is yet to be finalised for 2013/14 as the work is ongoing. We plan to report this to those charged with governance within our Annual Certification Report for 2013/14

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

ey.com

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **IMPLEMENTATION OF TREASURY MANAGEMENT POLICY AND STRATEGY**

SUMMARY

In accordance with the revised 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 2014.

RECOMMENDATION

The Audit and Governance Committee is asked to note the report.

BACKGROUND

1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
3. Accordingly, treasury management is defined as:

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

INTRODUCTION

4. The purpose of this report is to satisfy the requirement contained within the revised CIPFA Treasury Management Code of Practice to have a nominated responsible body, being the Audit and Governance Committee, examine and assess the effectiveness of the Council's treasury management strategy and policies.
5. The current Treasury Management Strategy, in Appendix A, was submitted to the Executive on 10 February 2014 and was formally adopted by Full Council on 21 February 2014.

MID YEAR REVIEW

6. This mid-year review has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
 - Changes to the Treasury Management Strategy;
 - An economic update for the first part of 2014/15;
 - A review of the Council's investment portfolio;
 - A review of the Council's borrowing activity;
 - A review of the Treasury Management Strategy 2014/15; and
 - A review of compliance with Treasury and Prudential Limits for 2014/15.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY

7. In order to minimise the risk to investments, the Council applies minimum acceptable credit ratings of counterparties for inclusion on the lending list.
8. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied

levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these “uplifts”, making the Support, Financial Strength and Viability ratings redundant. This process may commence during this financial year. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

9. The original Treasury Management Strategy Statement for 2014/15 states:

The Council will use banks which are UK banks and/or are non-UK and domiciled in a country which has a minimum sovereign rating of AA and have as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

	Fitch	Moody's	Standard and Poor's
Short Term	F1	P-1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C-	-
Support	3	-	-

10. At the 1 September 2014 Executive meeting, members approved the removal of the Viability/Financial Strength and Support ratings and that only the Short Term and Long Term ratings will be used. All other criteria remains as previously approved.

ECONOMIC UPDATE FROM TREASURY ADVISOR – CAPITA ASSET SERVICES

11. After strong UK GDP quarterly growth since early 2013, it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering.
12. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.
13. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers would be reversed by wage inflation rising back above the level of inflation. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates.
14. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore

expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

15. Also encouraging has been the sharp fall in inflation (CPI), reaching 1.2% in September, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.
16. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have been disappointing so far in 2014/15.

INVESTMENT PORTFOLIO

17. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
18. In the current economic conditions, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.
19. The total of fixed term investments and call accounts, as at 30 September 2014 was £47.1 million, as summarised below. The activity during the year for fixed investments is detailed in Appendix B.

Investments	Externally Managed £m	Internally Managed £m	Call Accounts £m	Total £m
At 1 April 2014	10.0	18.0	12.8	40.8
New	5.0	14.0	58.5	77.5
Repaid	5.0	9.0	57.2	71.2
At 30 Sept 2014	10.0	23.0	14.1	47.1

20. The increase in funds of £6.3 million 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.

Investment Structure

21. The structure of investments at 30 September is shown in the table below. Over the past couple of years, most investments have been held on short periods to mitigate the risks that have been seen during the recession. At the same time, officers have actively sought to spread investments across a wider range of counterparties rather than operating at the upper limit for investments to limit the exposure to financial loss.

Investment Structure	Externally Managed £m	Internally Managed £m	Call £m	Total £m
For periods of less than 1 month	1.0	1.0	12.1	14.1
For periods of 1 to 3 months	2.0	5.0	2.0	9.0
For periods of 3 to 6 months	0	5.0	0	5.0
For periods of 6 to 12 months	4.0	11.0	0	15.0
For periods of 1 to 2 years	3.0	1.0	0	4.0
Total Investments at 30 Sept 2014				
Investments for periods < 365 days	7.0	22.0	14.1	43.1
Investments for periods 365+ days	3.0	1.0	0	4.0

22. Throughout this period of uncertainty, officers have been taking advice from the Council's treasury advisor, Capita Asset Services, to ensure that decisions are taken in light of the latest facts at the time. This has given rise to lower interest rates being secured but this is the lowest priority consideration compared to the security of investments and the liquidity of cash flow.
23. The Council's fixed term investments are partly managed externally by Tradition UK Ltd. The role of the broker is to determine the most appropriate investment option within criteria set by the Council. All cash transfers are made by Council officers and Executive approval has been given for the allocation of up to £13 million to the externally managed portfolio. This retains sufficient funds within the direct management of officers, while still ensuring that maximum yield is achieved from the longer term investments.
24. The investment structure is sufficient to meet the capital programme and other large cash outflows.
25. To increase the liquidity of the Council's investments, call accounts with Nat West, Santander, HSBC and Svenska Handelsbanken are being used. These accounts offer quick access to funds however they do attract a lower rate of interest than some of the fixed term investments shown in the table above.
26. The balance within each call/notice account as at 30 September 2013 is set out in the following table:

Call Accounts	£m
NatWest	3.1
Santander – 95 Day Notice	2.0
Svenska Handelsbanken	3.0
HSBC	6.0
Total	14.1

BORROWING ACTIVITY

27. The Council's external long term debt amounted to £40.4 million as at 1 April 2014. This is as a result of the HRA reforms (£40m) and the Hampshire County Council interest free loan for Portchester Community Centre (£0.4m). Borrowing may be required later in the year for the Daedalus capital scheme.
28. The Council has taken out ten £4 million loans from the PWLB with duration of between 40 and 50 years at an average interest rate of 3.50% as detailed in the table below:-

Repayment Date	Loan Amount	Interest Rate
30/09/2052	£4m	3.52%
30/09/2053	£4m	3.51%
30/09/2054	£4m	3.51%
30/09/2055	£4m	3.51%
30/09/2056	£4m	3.50%
30/09/2057	£4m	3.50%
30/09/2058	£4m	3.50%
30/09/2059	£4m	3.49%
30/09/2060	£4m	3.49%
30/09/2061	£4m	3.48%
Total	£40m	3.50% average

29. Interest payable for 2014/15 is budgeted at £1,870,900 and will be met by the HRA. £1,400,400 relates to the PWLB loans and £470,500 for interest on internal borrowing between the General Fund and the HRA.

INTEREST RATE FORECAST

30. The Council's treasury advisor, Capital Asset Services, has provided the following forecast:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

31. Capita Asset Services undertook a review of its interest rate forecasts on 24 October. During September and October, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone, had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2015.

STRATEGY COMPLIANCE

32. The Council's Treasury Management Strategy Statement for 2014/15 in Appendix A, which includes the Annual Investment Strategy 2014/15, was approved by the Council on 21 February 2014. It sets out the Council's investment priorities as being:
- Security of capital;
 - Liquidity; and
 - Yield
33. The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in higher rates in periods up to 12 months with highly credit rated financial institutions.
34. The compliance with the various elements of the strategy are set out in the following table:-

Compliance on Individual Elements	Yes/No	Notes
Borrowing only up to "supported" level	Yes	No borrowing this quarter
All investments with approved institutions	Yes	Treasury management advisors provide updated list of approved institutions each month
All individual investments within prescribed financial limits	Yes	There are currently 6 institutions where the total investment is at the

	<p>maximum level. They are Lloyds Bank (£8m limit), HSBC, (£6m limit), Skipton BS, West Brom BS, Leeds BS and Principality (£2m limit).</p>
--	---

35. No changes to the Council's Treasury Management Strategy Statement and Annual Investment Strategy 2014/15 are considered necessary at this time as the rules currently being applied to investments are much tighter than those approved within the Treasury Management Strategy.

COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

36. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordable limits) were approved by the Executive at its meeting on 10 February 2014.
37. Performance for the first half of the year is shown in Appendix C and the purpose of each indicator is explained in more detail in Appendix D. During the financial year to date the Council has operated within the treasury limits and the Prudential Indicators.

RISK ASSESSMENT

38. In the current economic climate and the heightened credit concerns, 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.
39. 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

Background Papers: None

Reference Papers: 10 February 2014 Executive Report - Treasury Management Policy and Strategy 2014/15

Appendices:

Appendix A - Treasury Management Strategy 2014/15

Annex A - Summary of Prudential and Treasury Indicators

Appendix B - Total investment activity to 30 September 2014 with each approved institution

Appendix C - 2014/15 Prudential Indicators - Half-Yearly Performance

Appendix D - Details of Prudential Indicators

Enquiries:

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

TREASURY MANAGEMENT STRATEGY 2014/15**SECTION 1 - INTRODUCTION****BACKGROUND**

1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management service is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This 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.
3. The Chartered Institute of Public Finance Accountants (CIPFA) defines treasury management as:

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

REPORTING REQUIREMENTS

4. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. The responsibility for the implementation and monitoring of these reports is the Executive with the Audit & Governance Committee responsible for the effective scrutiny of the treasury management strategy and policies.
5. The three reports are:
 - (1) Treasury Management Strategy and Prudential Indicators, covering:
 - the capital plans (including prudential indicators);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - the investment strategy (the parameters on how investments are to be managed).
 - (2) Mid Year Treasury Management Report - updating members with the progress of the capital position and investment activity, amending prudential and treasury indicators as necessary and whether the treasury strategy is being met or requires revision. In addition, the Executive will receive quarterly update reports.

- (3) Annual Treasury Report - This provides details of the actual prudential and treasury indicators and actual treasury activity compared to the estimates within the strategy.

TREASURY MANAGEMENT STRATEGY FOR 2014/15

6. The strategy for 2014/15 covers two main areas:
 - (1) Capital Issues
 - capital plans;
 - prudential indicators;
 - (2) Treasury Management Issues
 - current treasury position;
 - treasury indicators which will limit the treasury risk and activities of the Council;
 - prospects for interest rates;
 - borrowing strategy;
 - policy on borrowing in advance of need;
 - investment strategy;
 - investment counterparty selection criteria; and
 - policy on use of external service providers.
7. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG Investment Guidance.

TRAINING

8. 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. Recent member training was undertaken by Capita Asset Services in November 2013 and further training will be arranged as required.
9. The training needs of treasury management officers are periodically reviewed.

TREASURY MANAGEMENT CONSULTANTS

10. The Council uses Capita Asset Services, as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
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.

SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2013/14 - 2016/17

12. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.
13. A summary of all prudential and treasury indicators can be found in Annex A.

Capital Expenditure (Aff.3)

14. This prudential indicator is a summary of the Council's capital expenditure plans and those forming part of this budget cycle.

Capital Expenditure £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	Un- allocated
Public Protection	0	0	0	0	379
Streetscene	114	36	0	0	350
Leisure & Community	1,418	3,433	810	205	0
Health & Housing	1,545	480	480	480	2,600
Strategic Planning & Environment	341	75	20	21	614
Policy & Resources	5,736	12,282	1,361	655	113
Total General Fund	9,154	16,306	2,671	1,361	4,056
HRA	4,276	8,297	6,951	1,769	0
Total	13,430	24,603	9,622	3,130	4,056

15. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	Un- allocated
General Fund	9,154	16,306	2,671	1,361	4,056
HRA	4,276	8,297	6,951	1,769	0
Total	13,430	24,603	9,622	3,130	4,056
Financed by:					
Capital receipts	3,895	5,467	230	230	2,600
Capital grants	3,024	5,870	1,135	325	350
Capital reserves	5,462	8,099	5,485	2,035	113
Revenue	1,049	2,202	2,772	540	993
Net financing need for the year	0	2,965	0	0	0

The Council's Borrowing Need (Capital Financing Requirement) (Aff.5)

16. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

17. The CFR projections are as follows:

£'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
General Fund	-2,754	211	211	211
HRA	53,805	53,805	53,805	53,805
Total CFR	51,051	54,016	54,016	54,016

Affordability Prudential Indicators

18. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Financing costs as a percentage of net revenue stream (Aff.1)

19. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.
20. The positive percentage for the HRA for 2013/14 to 2016/17 reflects the net borrowing costs for the HRA settlement.

	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
General Fund	-14%	-12%	-12%	-12%
HRA	15%	14%	14%	14%
Total	2%	3%	3%	3%

Incremental impact of capital investment decisions on council tax and housing rents (Aff.2)

21. This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.
22. Similar to the council tax calculation, the housing rents indicator identifies the trend in the cost of proposed changes in the housing capital programme compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council tax band D	£1.15	£2.70	£0.54	£1.10
Weekly housing rent levels	£0.65	£0.63	£0.51	£0.12

23. HRA Ratios

	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268
HRA revenues £'000	11,462	12,120	12,613	13,020
Number of HRA dwellings	2,397	2,389	2,379	2,369
Ratio of debt to revenues %	4.29:1	4.06:1	3.91:1	3.78:1
Debt per dwelling £	£20,554	£20,622	£20,709	£20,796

SECTION 3 - TREASURY MANAGEMENT STRATEGY 2014/15

24. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

CURRENT PORTFOLIO POSITION

25. The Council's treasury portfolio position at 31 March 2013, 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 - CFR), highlighting any under or over borrowing.

£'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing at 1 April	42,471	42,271	45,036	44,836
Expected change in borrowing	(200)	2,765	(200)	(200)
Other long term liabilities	0	0	0	0
Borrowing at 31 March	42,271	45,036	44,836	44,636
The Capital Financing Requirement	51,051	54,016	54,016	54,016
Under/(over) borrowing	8,780	8,980	9,180	9,380

26. 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 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
27. The Director of Finance and Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary (Aff.4)

28. 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.

Operational Boundary £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	47,000	48,000	45,000	45,000
Other long term liabilities	2,000	2,000	2,000	2,000
Total	49,000	50,000	47,000	47,000

The Authorised Limit for External Borrowing

29. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
30. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
31. The Council is asked to approve the following Authorised Limit:

Authorised Limit £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	57,000	69,000	71,000	74,000
Other long term liabilities	4,000	4,000	4,000	4,000
Total	61,000	73,000	75,000	78,000

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

HRA Debt Limit £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
HRA debt cap	56,851	56,851	56,851	56,851
HRA CFR	53,805	53,805	53,805	53,805
HRA headroom	3,046	3,046	3,046	3,046

PROSPECTS FOR INTEREST RATES

33. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services central view on interest rates.

Annual Average %	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
March 2014	0.50	2.50	4.40	4.40
June 2014	0.50	2.60	4.50	4.50
Sept 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
March 2015	0.50	2.80	4.60	4.70
June 2015	0.50	2.80	4.70	4.80
Sept 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
March 2016	0.50	3.10	5.00	5.10
June 2016	0.75	3.20	5.10	5.20
Sept 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
March 2017	1.25	3.40	5.10	5.20

34. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.
35. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established.
36. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.
37. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

38. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:
- For the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - Investment returns are likely to remain relatively low during 2014/15 and beyond;
 - Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
 - There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

BORROWING STRATEGY

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. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
40. Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

Treasury Management Limits on Activity (Pru.3 and 4)

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

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

42. The Council is asked to approve the following treasury indicators and limits:

Upper limits on interest rate exposures	2013/14	2014/15	2015/16	2016/17
	%	%	%	%
- 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

POLICY ON BORROWING IN ADVANCE OF NEED

43. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

44. Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the quarterly or annual reporting mechanism.

DEBT RESCHEDULING

45. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
46. The reasons for any rescheduling to take place will include:
 - the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
47. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
48. All rescheduling will be reported to the Council at the earliest meeting following its action.

SECTION 4 - ANNUAL INVESTMENT STRATEGY 2014/15

INVESTMENT POLICY

49. The Council's investment policy has regard to DCLG's Guidance on Local Government and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.
50. The Council's investment priorities will be security of capital first, liquidity second and then the return.
51. In accordance with the above guidance from DCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using the Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
52. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
53. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
54. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
55. The intention of the strategy is to provide security of investment and minimisation of risk.

INVESTMENT COUNTERPARTY SELECTION CRITERIA

56. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:
 - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the sections below; and
 - It has sufficient liquidity in its investments. For this purpose it will set out

procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

57. The Director of Finance and Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
58. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not the institution will fall outside the lending criteria.
59. Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
60. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.
 - if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings, the Council will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
61. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information (for example Credit Default Swaps, negative rating watches/outlooks). This additional information will be applied to compare relative security of differing investment counterparties.

62. The following internal measures are also in place:

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

63. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality. The Council will use banks which are UK banks and/or are non-UK and domiciled in a country which has a minimum sovereign rating of AA and have as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

	Fitch	Moody's	Standard and Poor's
Short Term	F1	P-1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C-	-
Support	3	-	-

- Banks 2 - Part nationalised UK banks (Lloyds Banking Group and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Bank 3 - The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building Societies - Building societies have formed the basis of the UK's savings culture and are under strict FSA directives in regard to their borrowing and lending criteria. The Council will use all societies which meet the ratings for banks outlined above and/or have assets in excess of £5bn.
- Other investment counterparties:
 - i. UK Government (including gilts and the Debt Management Account Deposit Facility)
 - ii. Local authorities
 - iii. Money market funds
 - iv. Enhanced cash funds

COUNTRY AND SECTOR CONSIDERATIONS

- 64. The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
- 65. All investments must be sterling denominated and the Council will limit the amount of investments with building societies to 25% of the portfolio.
- 66. As far as possible, the Council will aim to maintain at least 25% of investments maturing within 1 year, and have no more than 50% of investments that have a maturity date of more than 1 year.

TIME AND MONETARY LIMITS APPLYING TO INVESTMENTS

- 67. The time and monetary limits for institutions on the Council’s counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating	Money Limit	Time Limit
Banks 1 - good credit quality	A	£6m	5 years
Banks 2 - part-nationalised	N/A	£8m	3 years
Building societies - Assets over £5bn	N/A	£2m	1 year
Debt Management Account Deposit Facility	AAA	Unlimited	6 months
Local Authorities	N/A	Unlimited	5 years
Money Market Funds	AAA	£6m per fund	Liquid
Enhanced Cash Funds	AAA	£6m per fund	Liquid

INVESTMENT STRATEGY

- 68. The Council’s in-house managed funds are mainly existing resources earmarked to finance future capital expenditure and resources derived from favourable cash flow with a core balance of £10 - £15 million available for investment over a year.
- 69. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 70. The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. The Bank Rate forecasts for financial year ends (March) are:

Year	Bank Rate
2013/14	0.50%
2014/15	0.50%
2015/16	0.50%
2016/17	1.25%

- 71. There are upside risks to these forecasts (i.e. start of increases in Bank Rate

occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

Investment Treasury Indicator and Limit (Pru.5)

72. Total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

£M	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Principal sums invested > 364 days	16	16	17	17

73. For its cash flow generated balances, the Council will seek to utilise its call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

External Fund Managers

74. Up to £13 million of the Council’s investments are externally managed on a discretionary basis by Tradition. This level is based on the core balance of £10-15 million and is reviewed periodically as the core balance changes.
75. Tradition will comply with the Annual Investment Strategy and their performance is reviewed quarterly by the Director of Finance and Resources.
76. The agreement between the Council and Tradition additionally stipulate guidelines and duration and other limits in order to contain and control risk.

OTHER ISSUES

77. 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.
78. The unprecedented changes in the economy and the financial sector are such that this Strategy Statement provides a framework within which Officers will operate. The Director of Finance and Resources will take further precautionary steps to manage the investment portfolio within the framework, responding to the economic conditions as they evolve throughout the year.

SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Responsible body - Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Responsibility for scrutiny - Audit and Governance Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS






Indicator	Description	2013/14	2014/15	2015/16	2016/17
<u>Aff.1</u>	Affordability Measure: Financing Costs as a percentage of net revenue stream				
	Overall Position	2%	3%	3%	3%
1a	General Fund	-14%	-12%	-12%	-12%
1b	Housing Revenue Account	15%	14%	14%	14%
<u>Aff.2</u>	Affordability Measure: Incremental impact of capital investment on Council Tax and Housing Rents				
2a	Council Tax increases, borrowing costs only	£1.15	£2.70	£0.54	£1.10
2b	Housing Rent increases, borrowing costs only	£0.65	£0.56	£0.47	£0.12
<u>Aff.3</u>	Affordability Measure: Capital Expenditure (£'000s)	Estimate	Estimate	Estimate	Estimate
	General Fund	£9,154	£16,306	£2,671	£1,361
	Housing Revenue Account	£4,276	£8,297	£6,951	£1,769
	Total Capital Expenditure	£13,430	£24,603	£9,622	£3,130
<u>Aff.4</u>	Affordability Measure: External Debt Level (£'000s)				
	Authorised limit, comprising	£61,000	£73,000	£75,000	£78,000
	- borrowing	£57,000	£69,000	£71,000	£74,000
	- other long term liabilities	£4,000	£4,000	£4,000	£4,000
	Operational boundary, comprising	£49,000	£50,000	£47,000	£47,000
	- borrowing	£47,000	£48,000	£45,000	£45,000
	- other long term liabilities	£2,000	£2,000	£2,000	£2,000
<u>Aff.5</u>	Affordability Measure: Capital Financing Requirement (CFR) (£'000s)				
	General Fund CFR closing balance in the year	£51,051	£54,016	£54,016	£54,016
		-£2,754	£211	£211	£211
	HRA CFR closing balance in the year	£53,805	£53,805	£53,805	£53,805
<u>Pru.1</u>	Prudence Measure: Gross Debt and Capital Financing Requirement (CFR) (£'000s)				
	Gross Debt	£42,271	£44,204	£41,039	£40,839
	CFR (for last, current and next 2 years)	£204,204	£213,099	£216,064	£216,064
	Has measure been achieved?	Achieved	Achieved	Achieved	Achieved
	Memorandum Item : Prudence margin	£161,933	£168,895	£175,025	£175,225
<u>Pru.2</u>	Prudence Measure: Adoption of the CIPFA Treasury Management Code of Practice				
	Has the Code been adopted in its entirety?	Yes	Yes	Yes	Yes
<u>Pru.3</u>	Prudence Measure: Upper Limits to fixed and variable interest rate exposure				
	Upper limit to variable interest rate exposures	25%	25%	25%	25%
	Upper limit to fixed interest rate exposures	100%	100%	100%	100%
<u>Pru.4</u>	Prudence Measure: Maturity structure of borrowing	<u>Upper Limit</u>	<u>Upper Limit</u>	<u>Upper Limit</u>	<u>Upper Limit</u>
	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%
<u>Pru.5</u>	Prudence Measure: Total Principal sums invested for periods of more than 364 days (£'000s)				
	Upper Investment Limit for the year	£16,000	£16,000	£17,000	£17,000

**Total Investment Activity to 30 September 2014
with each Approved Institution**

	Externally Managed £	Internally Managed £	Call Accounts £	Total £
Clearing Banks				
Royal Bank of Scotland (including Nat West)	5,000,000	1,000,000	50,450,000	56,450,000
Barclays Bank		6,000,000		6,000,000
Lloyds Bank		14,000,000		14,000,000
HSBC			6,000,000	6,000,000
Other Banks				
Santander UK			6,000,000	6,000,000
Svenska Handelsbanken			4,000,000	4,000,000
Building Societies with Assets over £500bn				
Nationwide	3,000,000	5,000,000		8,000,000
Skipton	4,000,000			4,000,000
West Brom	2,000,000			2,000,000
Principality	1,000,000	1,000,000		2,000,000
Leeds		2,000,000		2,000,000
Local Authorities				
Glasgow City Council		3,000,000		3,000,000
Total Investments	15,000,000	32,000,000	66,450,000	113,450,000

Appendix C

2014/15 Prudential and Treasury Indicators - Quarter 2 Performance

Indicator	Description	Approved Indicators 2014/15	Quarter 2 Position	Performance Rating
Aff.1	Affordability Measure: Financing Costs as a percentage of net revenue streams			
1a	Overall Position	3%	2.3%	
1b	General Fund	-12%	-3.2%	
	Housing Revenue Account	14%	14.9% (estimated)	
Aff.2	Affordability Measure: Incremental impact of capital investment on Council Tax and Housing Rents			
2a	Council Tax increases, borrowing costs only	£2.70	No unsupported borrowing undertaken, therefore no effect on rent or council tax increases	
2b	Housing Rent increases, borrowing costs only	£0.56		
Aff.3	Affordability Measure: Capital Expenditure (£'000s)	Estimate to 30 Sept 14	Actual to 30 Sept 14	
	General Fund	£6,195	£2,459	
	Housing Revenue Account	<u>£4,122</u>	<u>£2,744</u>	
	Total Capital Expenditure	£10,317	£5,203	
Aff.4	Affordability Measure: External Debt Level (£'000s)			
	Authorised limit, comprising	£73,000	Long term external debt is £40.4m and short term debt is £1.582m	
	- borrowing	£69,000		
	- other long term liabilities	£4,000		
	Operational boundary, comprising	£50,000		
	- borrowing	£48,000		
	- other long term liabilities	£2,000		
Aff.5	Affordability Measure: Capital Financing Requirement (£'000s)			
	General Fund CFR closing balance in the year	£54,016 £211	No anticipated change to the planned position for CFR items	
	HRA CFR closing balance in the year	£53,805		

Indicator	Description	Approved Indicators 2014/15	Quarter 2 Position	Performance Rating
Pru.1	<p>Prudence Measure: Gross Debt and Capital Financing Requirement (CFR), (£'000s)</p> <p>Gross External Borrowing level</p> <p>CFR (for last, current and next 2 years)</p> <p>Has measure been achieved?</p> <p>Memorandum Item: Prudence margin</p>	<p>£44,204</p> <p>£213,099</p> <p>Achieved</p> <p>£168,895</p>	<p>£41,982</p> <p>£213,099</p> <p>Achieved</p> <p>£171,117</p>	☺
Pru.2	<p>Prudence Measure: Adoption of the CIPFA Treasury Management Code of Practice</p> <p>Has the Code been adopted in its entirety?</p>	Yes	Yes	☺
Pru.3	<p>Prudence Measure: Upper Limits to fixed and variable interest rate exposure</p> <p>Upper limit to variable interest rate exposures</p> <p>Upper limit to fixed interest rate exposures</p>	<p>25%</p> <p>100%</p>	All investments are fixed rate except 4% which are semi variable and linked to LIBOR rates	☺
Pru.4	<p>Prudence Measure: Maturity structure of borrowing</p> <p>Loans maturing within 1 year</p> <p>Loans maturing within 1 - 2 years</p> <p>Loans maturing within 2 - 5 years</p> <p>Loans maturing within 5 - 10 years</p> <p>Loans maturing in over 10 years</p>	<p><u>Upper Limit</u></p> <p>25%</p> <p>25%</p> <p>25%</p> <p>50%</p> <p>100%</p>	No borrowing undertaken in Quarter 2	☺
Pru.5	<p>Prudence Measure: Total Principal sums invested for periods of more than 364 days (£'000s)</p> <p>Upper Investment Limit for the year</p>	£16,000,000	<p>£4m 1-2 years</p> <p>£0m 2-3 years</p> <p>£0m 3-4 years</p>	☺

Details of the Treasury and Prudential Indicators

This appendix explains each of the prudential indicators, as defined in the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in Public Service Code of Practice.

Affordability

Aff.1: Financing costs as a percentage of net revenue stream

This compares the total principal and net interest payments on external debt less interest and investment income to the overall total revenue spending of the authority. The indicator must be calculated separately for the General Fund and Housing Revenue Account (HRA).

Aff.2: The incremental impact of capital investment on the Council Tax and Housing Rents

This indicator requires the General Fund net revenue streams to be converted into an estimated Band D Council Tax for each of the next three years. This will mean making assumptions on the levels of Government grant and Non Domestic Rates expected as well as the Council Tax base and spending plans. Only the element of any increase/decrease in Council Tax that relates to the Council's capital investment plans is reported in the indicator. A similar indicator must be calculated for average weekly rents in the HRA.

Aff.3: Capital expenditure

This indicator reports the Council's capital expenditure for the current year.

Aff.4: External debt

This indicator reports on the external debt limits (made up of borrowing and other long term liabilities). The two limits set are:-

The *authorised limit*. This is the maximum amount the authority allows itself to borrow.

The *operational boundary*. This reflects the most likely (prudent) but not worst case scenario of the debt position of the authority. This is also an "upper" limit, so does not reflect the expected external debt level for the Council on a day to day basis, but should link directly to capital spending plans, the capital financing requirement and daily cash-flows.

There may be occasions when the operational boundary for borrowing is temporarily breached - for example, if a capital receipt is not received on the due date. Such breaches must be monitored to identify trends, but do not need to be reported. On very rare occasions, the authorised limit may be breached and this must be reported to members.

Aff.5: The Capital Financing Requirement (CFR)

This indicator reports the actual capital financing requirement (CFR) for the General Fund and HRA. The CFR comprises the sum of the value of fixed assets (land, buildings etc), deferred charges (spending on assets not owned by the Council, such as capital grants to housing associations) and other capital accounts on the balance sheet (revaluation reserve and capital adjustment account). By adding these values together, the total represents a good approximation of how much capital investment has been funded from borrowing.

Prudence

The aim of this category of indicator is to ensure that medium and long term borrowing is only for capital purposes and that authorities are not taking out long term borrowing to fund revenue spending.

Pru.1: Gross external borrowing and the capital financing requirement

This indicator is used to compare the gross external borrowing against the total capital financing requirement (see Aff.5 above) for current year plus any additions to the total capital financing requirement for the coming year and two following years. The gross external borrowing figure should always be the lower figure.

Pru.2: Adoption of the CIPFA Treasury Management Code of Practice

The Code requires an explicit statement from the Authority that it has adopted the above Code published by the Chartered Institute of Public Finance and Accountancy, in full.

Pru.3: Upper limits to fixed and variable rate exposures

This indicator sets upper limits on the amount of net borrowing (total borrowing less investments) with fixed interest rates and variable interest rates for a three year period. By applying these thresholds, the exposure to fluctuations in interest rates can be controlled.

Pru.4: Maturity structure of borrowing

This indicator sets upper and lower limits on the amount of borrowing due to be repaid in a given period on fixed rate borrowing. The purpose of this indicator is to ensure that the Council has a balanced portfolio of debt, avoiding any major peaks and troughs over the life of the total debt.

Pru.5: Total principal sums invested for periods of more than 364 days

This sets a limit on the amount of money than can be invested for more than one year.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **QUARTERLY AUDIT REPORT**

SUMMARY

This report provides the Audit Committee with the information arising from the latest internal audit work to be finalised and gives an update on the completion of the remaining audits from previous plans and the new audits planned for 2014/15.

RECOMMENDATION

That the Committee notes the progress of the Contractor Internal Audit Plan, attached as Appendix A to this report.

[Appendix A](#) – Contractor Quarterly Audit Progress Report

Background Papers: None

Reference Papers:

Report by the Director of Finance to the Audit Committee on 11 March 2013 on Contractor Annual Audit Plan 2013/14

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

Enquiries:

For further information on this report please contact Suzanne Smith, Audit Manager, Mazars (Ext 4419)



Fareham Borough Council
Audit & Governance Committee
Quarterly Audit Progress Report

October 2014

This report has been prepared on the basis of the limitations set out on page 10.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 13 April 2010 and subsequent Letter of Extension dated 01 April 2013 between Fareham Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Fareham Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. Introduction and background

- 1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2013/14 and 2014/15 Internal Audit Plans.

2. Promoting internal control

- 2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:
- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
 - Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Three of this report; and
 - Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

3. 2013/14 & 2014/15 Progress

- 3.1 The current status of the agreed 2013/14 and the 2014/15 Internal Audit Plans is detailed in Annex One and Annex Two, respectively, along with the number of days delivered. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.
- 3.2 As at 31st October 2014, progress against the 2013/14 plan is as follows. Detailed progress is covered within Annex One.

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	31	31
Number of audits finalised	29 (94%)	30 (97%)
Number of reports issued at draft	2 (6%)	1 (3%)
Number of audits commenced	N/A	N/A
Number of planned audit days delivered	234.5/235 (99.8%)	235/235 (100%)

3.4 As at 31st October, progress against the 2014/15 plan is as follows:

2014/15 Plan	Last Committee	This Committee
Number of audits in plan	6	19
Number of audits finalised	0 (0%)	0 (0%)
Number of reports issued at draft	0 (0%)	2 (13%)
Number of audits commenced	3 (50%)	8 (50%)
Number of planned audit days delivered	9.4/59 (15.9%)	25.9/223 (11.6%)

3.5 At the time of this report, 11.6% of the allocated days from the 2014/15 Internal Audit Plan has been completed. Detailed progress is covered within Annex Two.

4. Changes to the 2014/15 plan

4.1 An additional day has been added to the planned time as last reported to Committee for the Foreshore and Beach Huts audit, and two days to the Tenancy Management audit to allow adequate time for additional testing requested by the Head of Audit and Assurance.

4.2 Since the last Committee, a further thirteen audits have been added using 130 days of the planned audit time. Eight of these are covering the fundamental systems using a slight change of approach, discussed with the external auditors, in which coverage will be more cyclical. This has freed up time to do a more significant audit of the benefits system which has progressed sufficiently with its intervention to now warrant audit coverage.

4.3 Work is still progressing on allocating the remaining 35 days in the 2014/15 plan.

5. Detailed progress since the last Audit and Governance Committee

5.1 Since the previous Audit & Governance Committee, two reports are at draft stage from the 2014/15 plan; these relate to Foreshore (Beach Huts) and Legionella and Gas Safety Risks Follow up. The assurance levels will be confirmed to the next Audit and Governance Committee upon finalisation.

5.2 One report has been issued in final version as listed below with the opinions given and level of recommendations made:

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2013/14 Plan				
Financial Regulations Limited Compliance Testing	Not relevant for this work (see Page 5 Note 3)	-	-	-

2013/14 Internal Audit Plan as at 31st October 2014

Annex One

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 1											
1	Management of Tradesmen	7	7	Final	Reasonable	-	1	1	1	1	
2	Town Centre Management	7	7	Final	Strong	-	-	1	-	-	-
3	Coastal Protection & Land Drainage	6	6	Final	Strong	-	1	-	-	-	-
4	Leisure Centre Trust	6	6	Final	Strong	-	-	3	-	-	-
Quarter 2											
5	Treasury Management	6	6	Final	Strong	-	-	-	-	-	-
6	Insurance	5	5	Final	Reasonable	-	1	2	3	1	-
7	Planning Contributions and Community Infrastructure Levy	8	8	Final	Reasonable	-	1	1	-	-	1
8	Training & Development	8	8	Final	Reasonable	-	1	3	-	-	-
9	Licensing of Taxis & Alcohol	8	8	Final	Strong	-	1	2	7	5	-
10	Public Conveniences	6	6	Final	Reasonable	-	1	1	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7	7	Final	Reasonable	-	2	-	-	-	1
12	Invoicing & Collection of Income	9	9	Final	Reasonable	-	2	1	2	-	2
13	Payroll	7	7	Final	Strong	-	-	-	1	-	1
14	Fixed Assets	6	6	Final	Strong	-	1	-	-	-	-
15	Revenues	12	12	Final	Strong	-	1	1	-	-	1
	Performance Management			Note 1							
16	Clean Borough Enforcement & Abandoned Vehicles	7	7	Final	Reasonable	-	3	2	-	-	-
17	Cash Collection & Banking	9	9	Final	Strong	-	-	4	-	-	1
18	Housing Rents	6	6	Final	Strong	-	1	-	4	-	1
19	Ferneham Hall	9	9	Final	Reasonable	-	-	4	11	4	2

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 4											
20	Risk Management	6	6	Final	Strong	-	-	2	-	-	-
21	Main Accounting	10	10	Final	Strong	-	-	2	-	-	-
22	Financial Regulations Limited Compliance Testing	2	2	Final	Note 3	-	-	-	-	-	-
23	Miscellaneous Democratic (Note 2)	5	5	Final	Strong	-	2	1	-	-	-
24	Housing Benefits & Council Tax Support	10	10	Final	Strong	-	-	-	-	-	-
25	Planning Applications	6	6	Final	Reasonable	-	1	1	1	4	1
26	Off-street Parking	6	6	Final	Reasonable	-	1	-	-	1	-
27	Homelessness	6	6	Final	Reasonable	1	-	-	1	-	-
28	Data Protection Follow Up	4	4	Draft	Note 4	-	-	-	2	-	6
Computer Audit											
29	Remote Access	8	8	Final	Reasonable	-	5	1	1	-	-
30	Main Accounting System (E-Financials) Application Review	7	7	Final	Reasonable	-	2	3	-	-	-
31	Website Content Management	10	10	Final	Reasonable	-	1	1	-	-	1
Other											
Audit Committee		4	4								
Audit Management		12	12								
TOTAL		235	235 (100%)			1 1.5%	29 43.3%	37 55.2%	34 50%	16 23.5%	18 26.5%

Note 1: The audit was postponed until the 2014/15 financial year to allow the new management system to embed. (Performance Management)

Note 2: The audit had been deferred from 2012/13 to 2013/14. (Audit 23)

Note 3: This work has been completed and issued to the Head of Audit & Assurance (HIA). It forms part of the extended work completed by the in-house Audit team and was included in the HIA's opinion for 2013/14. (Audit 23)

Note 4: Additional time to be used from 2014/15 plan to review some additional control areas and agree a revised action plan. (Audit 28)

2014/15 Internal Audit Plan as at 31st October 2014





Annex Two

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarters 1 and 2											
1	Legionella and Gas Safety Risks Follow Up	5	4	Draft Report							
2	Contract Completion (Final Accounts)	10		Planning							
3	Tenancy Management	10	7.5	Exit meeting							
4	Community Parks and Open Spaces	6	5	Exit meeting							
5	Foreshore (Beach Hut Income)	5	3.8	Draft Report							
Quarters 3 and 4											
6	Benefits	20	0.4	Planning							
7	Payroll (Light Touch)	7		Planning							
8	Accounts Receivable	12		Planning							
9	Cheque Control	6		In Progress							
10	Revenues	12		Scoping							
11	Accounts Payable (Light Touch)	7		Scoping							
12	Income Collection	15		Scoping							
13	Policy Compliance Checks	12		In Progress							
14	Data Protection	5		Scoping							
*	Other audits to be advised	35									
Computer Audit											
15	Payroll & Personnel System (CHRIS 21)	10		Planning							




No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
16	Review of Penetration Testing	10		Scoping							
17	Database Administration	8		Scoping							
18	Information Governance Opinion	5		Scoping							
19	IT Recommendation Follow Up	3		Scoping							
Other											
Audit Committee		4	0.5								
Audit Management		16	4.7								
TOTAL		223	25.9 (11.6%)								

Summary of Assurance Opinions Used

Annex Three

Assurance Level	Symbol	Description
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.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

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 Audit 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 Audit 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. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

October 2014

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **COUNTER FRAUD PROGRESS**

SUMMARY

This report updates the Committee on Counter Fraud strategy work in progress or carried out in the last 6 months. Key pieces of work have included: a) maintaining investigation capacity following the transfer of benefit investigation employees to the Department of Works and Pensions, b) conclusion of the Housing fraud data match exercise.

It also provides information on the numbers and outcomes of fraud cases in the last 6 months.

RECOMMENDATION

That the content of the report be noted.

INTRODUCTION

1. This report provides an update of any actions taken in the last 6 months in support of our Anti-Fraud and Corruption Policy. It also includes details of the cases of fraud that have been investigated.

ACTIVITY SINCE THE LAST REPORT

Strategic Actions

2. **Government Transparency Code:** The latest draft of the Transparency Code 2014 has recently been released and is expected to come into force in November 2014.
3. This places a mandatory requirement on the Council to publish each year the resources employed, the amount spent on the investigation and prosecution of fraud and the number of cases investigated. It is also recommended that we include investigations into other irregularities, the value of cases where fraud and irregularity were concluded and the levels recovered. Officers have therefore started work to enable us to meet these requirements.
4. **Transfer of Benefits Investigators:** As previously reported, the Department for Work and Pensions (DWP) have been tasked by the Government to investigate all welfare benefit. This includes the investigation of Housing Benefit fraud which was previously investigated by Local Authority investigators. The resulting single investigation service sits within the DWP Fraud and Error Service (FES).
5. Fareham Borough Council was selected in Tranche 2 of the migration program which took place on 1 October 2014 and from this date, both our Benefit investigators decided to transfer to DWP's employ. All Housing Benefit investigations in progress or waiting to be allocated have therefore been transferred to DWP for them to continue with the investigation. Any cases that were already with our legal team remain with FBC and will continue with legal proceedings by FBC.
6. It is therefore likely that from 1 October 2014 specific Housing Benefit fraud data for the Council will not be available and we will only be able to report on the national statistics provided by the DWP.
7. Fareham Borough Council will continue to maintain its objective to prevent, detect and deter other frauds within the Council such as Council Tax Support, Council Tax and Business Rates Discounts & Exemptions, Housing and Procurement fraud. A new Investigations Officer post has therefore been created and advertised and the selected candidate will be in post once their notice period has been completed.
8. **Counter Fraud Fund Bid:** The Government has recognised that the loss of investigating resource to the DWP may impair Council's ability to tackle other areas of fraud. They have therefore invited Councils to bid for funding to help establish ways of tackling non-benefit fraud.

9. A bid for funding has therefore been submitted by the Council in partnership with 5 other Hampshire Councils and 2 Housing Associations to fund further investigation resource and improve our ability to use internal and external data matching to detect potential cases of fraud. No response has been received to date.

Specific Areas of Fraud

10. **Housing Fraud:** The last report gave details of a data match exercise we were carrying out to provide some measurable assurance that the level of housing fraud is relatively low for this Council. This involved matching our Tenant's details with those of a credit reference agency.
11. This exercise has now been completed. No fraud issues were identified for **99%** of our tenancies and no cases of subletting, key selling or abandonment were found. However, in 2 cases the tenant was found to have died and family members with no succession rights were still resident. The residents have now been rehomed releasing the properties for use by other needy families.
12. In addition, 3 cases were found where the household were receiving housing benefit, council tax support or single residents discount inappropriately. Overpayments were generated totalling £6,318 and a further £6,075 of payments or discounts have been cancelled for the rest of the 2014/15 financial year.
13. **Procurement Fraud:** Bank mandate fraud is considered to be a significant risk for Councils. This involves a fraudster pretending to be a supplier and asking the Council to change the bank account details we hold for them so that the next payments made go to the fraudster's account.
14. Over the summer there have been a high number of councils in Hampshire reporting that they have been the target of bank mandate fraud attempts. As of yet we are not aware of any attempts on this Council, but officers have been alerted to the risk and have appropriate safeguards in place should an attempt occur.
15. **Fraud against Residents:** Reports continue to be received of attempted council rebate telephone scams in the Hampshire area, including Fareham. A new "ebilling" telephone scam has also started. The communications team have been publishing warnings including press releases to try and warn our residents.

INVESTIGATION REFERRALS AND OUTCOMES SINCE THE LAST REPORT

Benefits

16. The information provided in this report incorporates all the work undertaken by the two investigators whilst at Fareham Borough Council until 30 September 2014.

Table 1 – Nature of Benefit Cases Raised and Concluded in the last 6 months

Number of New referrals received in last 6 months	Number of Investigations Completed	Number of Cases where Abuse Concluded	Value of Abuse
287	237	67	£90,740

17. The value of abuse found includes prosecutions currently with a legal team awaiting a court date. Bills to recover the overpayments have been issued. The total of repayments of Housing Benefit collected in the last 6 months for all cases due to fraud was **£73,354** recovered from 80 cases.
18. Thirty six sanctions were applied for cases where abuse was concluded, 9 of which were prosecutions. The details of the cases prosecuted are summarised in [Appendix B](#). Three interesting and related cases are detailed further below.
- Three prosecutions were all investigated together and involved a mother and her two sons. Mrs K initially claimed Housing Benefit but this was not paid due to concerns about the truthfulness of the claim. She failed to declare that she was related to her landlord, who transpired to be her son living in London. After interviewing the son under caution at his local police station, it also transpired that various documents had been deliberately created to indicate that there was a rental liability, when in fact there wasn't.
 - As a result of this investigation, another investigation commenced on Mrs K's other son, who had previously claimed Housing Benefit for the same address in the same manner. He had also not declared that his landlord was his brother and also provided false documents to indicate there was a rental liability.
 - All three parties had different surnames, 2 of which sounded the same but had been modified to look different.
 - Although Mrs K is a pensioner, it was decided to prosecute all 3 parties as they had all conspired to dishonestly claim Housing Benefit. This was a lengthy investigation due to the involvement of three parties. In consultation with Fareham's legal team, 15 charges were brought against them in court, to which they all pleaded guilty.

Other Frauds

19. There have been 16 new suspicions of other types of fraud raised in the last 6 months through various means, including the council's 'report-it' channels. These are in addition to any frauds identified from bulk proactive reviews or data matching exercises. The cases cover the following types of fraud and may be dealt with by various teams in the Council:

Table 2 – Nature of Other Cases Raised and Concluded in the last 6 months

	Number of new referrals received in last 6 months	Number of Investigations completed	Number of Cases where Abuse Concluded	Value of Abuse £
Council Tax Discount Fraud	2	1	0	NA
Housing Fraud	8	6	1	NA
Blue Badge Fraud~	5	4	1	NA
Impersonation	1	1	0	NA
Total	16	12	2	

~ Data covers 12 months.

20. Since the last report 2 cases of other abuse have been concluded for cases that have

been closed. These are listed below with the outcomes to date:

Table 3 – Cases where Abuse Concluded

Type of Case	Abuse Concluded	Outcomes
Housing Fraud	Abandonment of Council Property to move in with partner	Proceedings started to seek possession of the property on the basis of arrears. Tenant agreed to hand keys back after interview under caution for benefit and housing fraud.
Blue Badge Fraud	Misuse of Parent's Disabled Parking Permit	Case passed to Hampshire County Council who discharged the matter by issuing a formal warning, and also providing educational information for both badge holder and family members.

21. **Whistleblowing:** There were no cases of serious concern raised by an employee in the last 6 months and no employee has felt it necessary to raise concerns outside the organisation.

NATIONAL FRAUD INITIATIVE

22. The National Fraud Initiative (NFI) is a data matching exercise currently organised by the Audit Commission. The data sets for 2014/15 have recently been requested and we are on target to have them all submitted by the required deadlines.
23. The last sets of matches resulting from the data matching were released in January 2014. Table 4 shows the progress made on clearing all matches since the last report. It should be noted that the 6 remaining benefits matches are all open investigations.

Table 4 - Progress Made on Clearance of NFI Matches

Year of Exercise	Subject of match	Number of matches received to review	Number of matches still to clear - last report	Number of matches still to clear - current
2012/13	Benefits	1076	20	6 (1%)
2013/14	Council Tax	553	553	13 (2%)
2013/14	Flexible match – Benefits to Student Loans	19	2	0

24. The table below shows the number and value of fraud cases arising from the clearance of NFI matches in the last 6 months:

Table 5 - Fraud Cases Identified from NFI

Data Set	Nature of Fraud	Date of Committee Report					
		Nov 2013		June 2014		Nov 2014	
		Number	Value	Number	Value	Number	Value
Housing Benefits	Undeclared earnings of adult at the property.	0	0	6	£27,297	1	£2,713
	Undeclared pension of adult at the property.			1	£945	1	£2,158

Data Set	Nature of Fraud	Date of Committee Report					
		Nov 2013		June 2014		Nov 2014	
		Number	Value	Number	Value	Number	Value
	Undeclared student loan of adult at the property.			2	£2,613		
Council Tax	Undeclared second adult living at property	1	£180	13	£8,117	30	£12,367
	Child at property reaching 18 and not declared					1	£375
Residents Permit*	Non return of permit from deceased holder	2	none				
TOTAL		3	£180	22	£38,672	33	£17,613

**It should be noted that although these are classified as frauds for the purposes of NFI, in most cases there may not have been a criminal intent involved.*

USE OF LEGAL POWERS

27. There has been 1 authorisation granted under the Regulation of Investigatory Powers Act 2000 (RIPA) for the six months between 1 April 2014 and 31 September 2014 as summarised in [Appendix A](#).
28. We have also been notified that our next inspection by the Office of the Surveillance Commissioner will take place on 11 December 2014.
29. There has been no use to date of powers granted under the Prevention of Social Housing Fraud Regulations 2014 or other similar powers.

RISK ASSESSMENT

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

CONCLUSION

31. Work continues to be carried out in accordance with the Council's Anti-Fraud and Corruption Policy. Fraud referrals for investigation continue to be received and handled by the relevant investigation teams.

Appendices

Appendix A - Authorisations for use of RIPA (April 2014 – September 2014)

Appendix B - Outcomes from Benefit Fraud Cases Prosecuted in the last 6 months

Background Papers: None

Reference Papers: Draft Transparency Code 2014 published by the Department for Communities and Local Government

Enquiries:

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

Authorisations for use of RIPA (April 14 to September 14)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
1-2014 /15	28/08/14	Head of Housing, Revenues and Benefits	Benefit Fraud – Undeclared partner	Surveillance	02/09/14	23	Evidence obtained that crime or disorder MAY BE occurring

Outcomes from Benefit Fraud Cases Prosecuted in the last 6 months

Case Ref	Benefits Involved	Nature of the Fraud	Value of FBC overpayment# (DWP overpayment)	Sentence (All found guilty)	Fine/Costs
1098	Council Tax Benefit (Pension Credit)	Failure to disclose change in circumstances	£6,589 (£34,691)	12 months custodial sentence, suspended for 2 years	£2,060 costs
18210	Housing Benefit	Failure to disclose a change in circumstances	£20,674	12 month conditional discharge	£80 costs
17130	Housing Benefit	Failure to declare a change in circumstances	£8,448	2 years conditional discharge	£150 costs £15 Victim Surcharge
20151	Housing Benefit	Failure to disclose change of circumstances and false declaration	£7,893	12 month community order for 100 hours unpaid work	£285 costs £60 Victim Surcharge
21499	Housing Benefit	Dishonestly failing to notify a change in circumstances	£7,023	Conditional discharge	£100 costs
18872	Housing Benefit Council Tax Benefit Council Tax Support	Failure to declare a change in circumstances	£4,666 £273 £405	18 month conditional discharge	£285 costs
*19763	Housing Benefit	False representation and providing false documents	£3,708	Conditional discharge	£280 costs £15 Victim Surcharge
*22822	Housing Benefit	False representation and providing false documents	No overpayment	Conditional discharge	
*Third party	Housing Benefit	Made or adapted an article intending it to be used to commit or assist in the commission of fraud (Fraud Act 2006)	No overpayment	Conditional discharge	

* Further details of the case provided in the report

In addition to the sentence and costs awarded at court, the value of the overpayments are actively recovered by the benefits overpayments team.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **REVIEW OF FINANCIAL REGULATIONS**

SUMMARY

Officers are currently carrying out a detailed review of each Financial Regulation in order to streamline them down to the key controls that members and officers are required to adhere to.

One more regulation has now been reviewed and is submitted for comment. This covers Regulation 21 – External Arrangements. Further changes are also proposed to Financial Regulation 4 – Authorisation Limits.

RECOMMENDATION

That the proposed changes are considered and any comments forwarded to the Council, to aid its decision in approving the revised regulations.

INTRODUCTION

1. Financial Regulations form part of the Council's constitution and provide a detailed strategic and operational framework for managing the authority's financial affairs. There were originally twenty-one Financial Regulations.
2. Since November 2010, officers have been reviewing individual regulations and streamlining them down to the key rules that are necessary for the Council to adequately manage its financial affairs. Nineteen regulations have been completed to date.
3. The review has been completed for one more regulation which is now being brought to members for comment. In addition further changes are proposed to one of the previously reviewed regulations.

REGULATION 21 – EXTERNAL ARRANGEMENTS

4. [Appendix A](#) and [Appendix B](#) give the current regulation and the proposed new regulation. Key changes proposed to the regulation are:
 - The Regulation to become more generic about alternative methods of service delivery, rather than having specific sections just for Partnerships and working for Third Parties.
 - A definition is included of a significant partnership, in which case the Executive or other appropriate Committee approval should be sought before commencing the arrangement.
 - The rules on external funding to be separated out into their own Regulation 22.
 - Specific rules on member conduct and confidentiality in relation to partnerships to be removed as they sit better as general themes in the constitution.
 - Duplication with other regulations or policies on authority to sign an agreement and record keeping for contracts to be removed.

REGULATION 4 – AUTHORISATION LIMITS

5. Regulation 4 on Authorisation limits was redrafted in 2012. Implementation of the revised regulation over the last 2 years has highlighted a couple of rules which would benefit from further revision. [Appendix C](#) shows the 2012 Regulation with the suggested changes.
6. **Signing of Expenditure on Behalf of Other Approved Bodies**

Current rule 4.8, which requires a written agreement to be in place to allow an employee to authorise expenditure on behalf of another body, is now considered impractical given the number of different working arrangements and organisations that officers may be involved with.

7. Instead it is recommended that the essence of this rule is covered by the new Financial Regulation 21 which requires the Statutory Chief Finance Officer to consider whether the governance arrangements of an alternative method of delivery are clear as to who is the accountable party for the funds in the new arrangement.

8. Level of Expenditure Authorisation below Head of Service

Only employees who have been nominated by their Head of Service or Director can authorise Council expenditure up to the level 3 threshold (currently £5,000). Above this amount authorisation is required from the Head of Service up to £75,000. However, it is recommended that the level 3 threshold is now increased to £10,000 to help allow a higher number of transactions to progress if the Head of Service is not available. There are about 50 employees with this level of authorisation.

9. Documentation of Posts Referred to Regulation 4

Regulation 4 stipulates authorisation powers which are restricted to “Finance Team authorisers” (Financial Management transactions), and “Super Users” (authorisation of an employee’s expenses in place of their manager).

10. The list of post titles which are given these powers are currently documented in Appendix 1 of the Regulation. It is proposed that the list is updated given the departure of the Director of Regulatory and Democratic Services and that instead the Head of Personnel and IT is now included as a “Super User”.

11. It is also recommended that this table is amalgamated with the supplementary document “Posts fulfilling the Roles in Financial Regulations”. This will allow the individual posts designated these powers to be kept up to date under the delegated power of the Statutory Chief Finance Officer, rather than requiring a report to the Audit and Governance Committee and Full Council.

12. Expansion of Employee Expenses Authorisations for Senior Officers

Regulation 4 is currently silent on who can authorise expense claims for Senior Officers. Additional rules are therefore recommended which stipulate that only a Director or a Super User can authorise a Director’s claim, and only another Statutory Officer can authorise a claim submitted by the Chief Executive Officer.

RISK ASSESSMENT

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

CONCLUSION

14. The proposed new approach to streamlining Financial Regulations will continue to guide the strategic and operational financial affairs of the authority in accordance with the latest national and local requirements.

Appendices:

Appendix A: Financial Regulation 21 – External Arrangements - Current version ([separate attachment](#))

Appendix B: Financial Regulation 21 and 22 – Alternative Ways of Delivering Services / External Funding – Proposed version ([separate attachment](#))

Appendix C: Financial Regulation 4 – Authorisation Limits – Revised version with changes highlighted ([separate attachment](#))

Background Papers: None

Reference Papers: Report of the Director of Finance and Resources to the Audit Committee on 30 November 2010 “Annual Review of Financial Regulations”.

Enquiries:

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

REGULATION 21: EXTERNAL ARRANGEMENTS (Current)

Quick Link

- 21.1 Partnerships
- 21.2 External Funding
- 21.3 Working for Third Parties

21.1 PARTNERSHIPS

Under the modernising agenda the Council is seen as providing a distinctive leadership role in the community. As part of the Community Strategy it brings together other local public, private, voluntary and community sector organisations in partnership to address local needs.

Best Value authorities are also required to challenge the way services are provided and consider alternative delivery options. Orders made under section 16 of the Local Government Act 1999 may give a Council the powers to enter into partnerships or contract partnering arrangements with the public, private or voluntary sector and these are seen as ways in which services may improve their economy, efficiency and effectiveness.

A partner can therefore be an organisation undertaking part funding or participating as a beneficiary in a project, or a body whose nature or status give it a right or obligation to support the project, or a body working on a joint venture with the Council for the delivery or acquisition of services.

Due to the varying nature of potential partnerships, this regulation seeks to set out the guiding principles for partnership arrangements, where any form of Council expenditure is involved.

21.1.1 Project Appraisal: A thorough project appraisal must be carried out on the viability of the project before any partnership project commences. At a minimum this must cover the following:

- Cost benefit and option analysis
- Analysis of the full extent of potential partners to participate in the proposals
- Funding requirements and proposed sources
- Risk analysis and contingency planning
- Resource implications
- Staff and expertise requirements
- Taxation implications

21.1.2 Project Approval: All partnership frameworks must be approved by the Executive or Other Committee on receipt of a written report.

21.1.3 Projects involving Neighbouring Authorities: Where the partnership will be involving working with neighbouring authorities then approval for the Project should follow the requirements of the Council's Framework for Developing Collaborative Working with Neighbouring Authorities.

21.1.4 **Financial Viability Check:** The risk management appraisal of funding sources, financial viability and contingency plans across current and future years must be approved by the Statutory Chief Finance Officer.

21.1.5 **Approved Projects Governance:** Before commencement of an approved project, appropriate governance mechanisms must be established in accordance with the Council's Framework for Partnership working. In particular these should include:

- An appropriate agreement with the parties involved, in a format approved by the Monitoring Officer.
- Aims and Objectives of the Partnership.
- Membership, roles and responsibility and powers of each partner involved, including health and safety responsibilities.
- Management and meeting structure and reporting requirements, including reporting arrangements to FBC members.
- Decision Making Processes.
- Processes to amend partnership rules.
- Exit Strategy.

21.1.6 **Financial Management Arrangements:** Before commencement of a partnership, which will be managing funds, the following financial control mechanisms must also be established and agreed with the Statutory Chief Finance Officer:

- Which organisations Financial Regulations and Contract Standing Orders are to take precedent.
- Budget forecasts and funding mechanisms.
- Expenditure approval processes and limits
- The financial accounting, monitoring, reporting and record keeping arrangements to be established.
- Ownership and audit accessibility to partnership documents.

Any authority over the management and spending of partnerships funds given to FBC employees must be established in writing and signed by all the parties involved.

21.1.7 **Significant Partnerships:** Any partnership assessed as “significant” In accordance with the FBC Framework for Partnership Working must also demonstrate the following arrangements:

- Procedures for dealing with conflicts of interest.
- Annual review of membership and opportunity to select chairman.
- Risk Management Arrangements

- Performance Management framework with measurable outcomes.
- Consultation with the local community and complaints procedures.

21.1.8 **Council Representation:** All members and employees must be mindful that they are representing the Council in any partnership arrangements and therefore must act with appropriate propriety and professionalism. In particular an appropriate ‘arms length relationship’ must be maintained with any organisation from whom we make or receive funding.

21.1.9 **Confidentiality:** All members and employees must hold confidentially and securely any information received as a result of partnership activities or duties that are of a confidential or commercially sensitive nature.

21.2 EXTERNAL FUNDING

Sources of external funding such as the National Lottery and the regeneration budget provide additional resources to enable the Council to deliver services to the local community. However, care needs to be taken that the funding conditions meets the aims and objectives of the Council.

21.2.1 **Match Funding:** Directors and Chief Officers must confirm with the Statutory Chief Finance Officer that any match funding requirements have been given due consideration prior to entering into long term agreements and that future revenue budgets reflect these requirements.

21.2.2 **Timing of Claims:** Directors and Chief Officers must ensure that all claims for funds are made by the due date.

21.2.3 **Accounting:** The Statutory Chief Finance Officer is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the Council’s accounts.

21.2.4 **Use of Funds:** Directors and Chief Officers must ensure that any external funds are properly spent and recorded in accordance with the scheme.

21.3 WORKING FOR THIRD PARTIES

Current legislation enables the authority to provide a range of services to other bodies on a client/contractor basis in order to maximise the use of its resources and expertise. However, there are restrictions under the Local Authority Goods and Services Act 1970 as to the nature of the bodies to whom we can supply a service (principally public sector organisations.) The Council itself can also be the recipient of services from similar organisations under this act, in which case the rules for procurement (Financial Regulation 15) should be followed.

- 21.3.1 **Tender Appraisal:** Before entering into an agreement to provide services for a third party a comprehensive risk appraisal must be carried out covering at least the following:
- confirmation with Legal Services that the Council has a legal power to provide the goods or service;
 - assessment on whether the service has the appropriate resources and technical expertise to undertake the work across the duration of the contract;
 - assessment of whether the contract will impact adversely upon the services provided for FBC;
 - confirmation that the Council will not be subsidising the contract in any way and there are no tax implications;
 - confirmation that the client is financially viable and the Council is not at risk of future bad debts;
 - assessment of any additional insurance arrangements that may be needed.
- 21.3.2 **Financial Advice:** Advice must be sought from the Statutory Chief Finance Officer on the tender sums being submitted and the proposed contingency arrangements for any perceived risks.
- 21.3.3 **Member Approval:** All third party arrangements must be approved by the Executive before negotiations are concluded.
- 21.3.4 **Authorisation of Agreements and Contracts:** Agreements and contracts can only be authorised by an employee whose level of delegated authority is above the total net value of the contract.
- 21.3.5 **Authorisation List:** A list of officers authorised to authorise agreements or contracts on behalf of the Council shall be given to the "Nominated Chief Officer with responsibility for Exchequer functions" together with their specimen signatures and any limits imposed, in accordance with [Financial Regulation 4](#).
- 21.3.6 **Contract Terms and Conditions:** Authorising Officers must ensure that all contract documents have been checked by Legal Services before entering into a contract, to ensure that they do not put the Council at undue risk or conflict with the Council's Aims and Objectives.
- 21.3.7 **Contract Register:** Directors and Chief Officers must ensure that a contract register is maintained of all contracts entered into and all payments owing and received are recorded.

Other Points of Reference (underline denotes a hyperlink is available)

[Financial Regulation 2: Responsibilities of Statutory Officers](#)

SECTION E: EXTERNAL ARRANGEMENTS – REG. 21 (External Arrangements)

[Financial Regulation 4: Authorisation Limits](#)

[Financial Regulation 15: Contract and Procurement Procedures](#)

[Anti-Fraud and Corruption Policy](#)

FBC Framework for Partnership Working

FBC Framework for Developing Collaborative Working with Neighbouring Authorities

REGULATION 21: ALTERNATIVE WAYS OF DELIVERING SERVICES (Proposed)

- 21.1 Alternative methods of service delivery will be considered where they:
- are legally permissible;
 - have clear aims and objectives;
 - make a positive contribution to the achievement of the Council's corporate objectives;
 - do not put the Council at an inappropriate risk.
- 21.2 Before entering into an alternative method of service delivery appropriate legal and finance advice should be obtained and appropriate governance arrangements should have been considered.
- 21.3 The Statutory Officers are responsible for promoting and maintaining the same high standards of conduct and stewardship, in alternative methods of service delivery, as apply for the Council.

*Examples of what the **Statutory Chief Finance Officer** should consider are:*

- *Who is the accountable party for the funds and other assets of the enterprise?*
- *What set of Financial Regulations and Contract Procedure Rules are to be followed by the enterprise?*
- *Budget forecasting and funding mechanisms.*
- *Expenditure approval processes and limits.*
- *The financial accounting, monitoring, reporting and record keeping arrangements.*
- *Taxation implications*
- *Ownership and audit accessibility to records.*
- *Risk Management and Business Continuity Arrangements.*

*Examples of what the **Monitoring Officer** should consider are:*

- *Format and content of agreement between the parties involved.*
- *Membership, roles and responsibility and powers of each party.*
- *Management, meeting and reporting structures, including reporting arrangements to FBC members.*
- *Appropriate codes of conduct to be followed by members of the enterprise's "Board".*
- *Decision Making Processes.*
- *Processes to allow rules and agreements to be modified.*
- *Exit Strategy.*

- 21.4 **Approval:** All significant alternative methods of service delivery must be approved by the Executive or other appropriate Committee on receipt of a written report.

The Council's definition of a significant partnership is a partnership that:

- a. is a legal requirement or based on statutory guidance; or*
- b. it commissions or delivers activities at a borough wide or local level that contribute substantially towards the Corporate Strategy outcomes; and*
- c. there is a significant risk to the Council if there is under-performance in this area.*

The responsible director will determine whether a proposal meets these criteria in consultation with the Statutory Officers.

REGULATION 22: EXTERNAL FUNDING (Proposed)

- 22.1 **Funding Implications:** Directors must confirm with the Statutory Chief Finance Officer that the Council will be able to fulfil any significant financial obligations arising from external funding agreements before entering into them.
- 22.2 **Use of Funds:** The lead applicant must ensure that any external funds are claimed within the required timescale and are properly spent and recorded in accordance with the scheme.

REGULATION 4: AUTHORISATION LIMITS

Incurring expenditure relates to any process, which places a commitment on the Council to commit or spend its monetary resources. These processes include authorising orders, invoices or any type of reimbursement. They do not relate to the administrative activities supporting these processes e.g. setting up an electronic order.

- 4.1 **Nature of Spend:** Expenditure should only be incurred in relation to the business of FBC and procurement channels should not be used for personal use under any circumstance.
- 4.2 **Budget Provision:** Expenditure can only be incurred within the revenue and capital budgets approved by the Council.
- 4.3 **Capital Expenditure:** Only expenditure that meets the capitalisation rules can be charged against a capital scheme.
- 4.4 **Budget Holder Agreement:** When authorising expenditure, the authoriser should be confident that the budget holder has confirmed that the expenditure can be posted against their budget. The authoriser should take reasonable steps to be able to demonstrate this confirmation if challenged.

Exemptions from the need for budget holder confirmation are:

- Internal recharges
 - Employee related costs
 - Energy costs
 - Vehicle costs
 - Insurance premiums and excesses
 - Leasing costs
 - Capital financing costs
 - Bank charges
 - Bad debt provisions
 - ICT software and hardware costs
 - Non negotiable expenditure e.g. external audit fees
 - Accounting transactions and corrections
 - Anything else procured centrally or expenditure on a consolidated invoice.
- 4.5 **Authorisers:** Orders and payments which involve the spending of council funds must be authorised by an employee of the Council, whose powers to incur expenditure are in accordance with the limits set out in Appendix 1, and who has been nominated as an authoriser by their Head of Service.

- 4.6 Employees must not authorise any payments which are above these limits unless written approval to do so has been given by the employee's director and Statutory Chief Finance Officer.
- 4.7 **Emergency Responses:** In the event of the Council being involved in an emergency response, such that a control centre has been established, additional powers of authorisation are allowed in accordance with [Financial Regulation Support Document 29](#).
- ~~4.8 **Signing on Behalf of Other Approved Bodies:** No employee can authorise expenditure on behalf of a body other than Fareham Borough Council, unless the body has been approved in accordance with Financial Regulation 21 and this power is confirmed in a written document or agreement with the body concerned. This document should convey the limitations on this power.~~
- 4.94.8 **Personal Benefit:** No employee can authorise payments to themselves, or to related bodies/individuals where they have a personal interest. Any exceptions to this must be agreed by the Statutory Chief Finance Officer.

Appendix 1 - Current Authorisation Limits

			Level 1	Level 2	Level 3	Other
	Covers	Additional Rules	Member of CXMT	Head of Service	Other staff nominated by their Head of Service or Director	Finance Team Authoriser
Budget Expenditure	Electronic authorisation on efinancials, Orchard or Technology Forge Manual authorisation of order forms, yellow stickers or payment vouchers/certificate	Any payment over £500,000 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	£500,000	£75,000	£5,000 <u>£10,000</u>	Not applicable
Petty Cash	Cash Advances Reimbursement Float Top Up	Any payment over £200 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	£200	£100	£50	Not applicable
GPC Cards	Advance payments In person payments Telephone payments Internet orders	Limits are the upper limit for single transactions. Actual limits for single and monthly transactions are set out in individual Procurement Card agreements.	Up to £5,000	Up to £2,000	Up to £1,000	Not applicable
Financial Management	Manual signatures on financial instruments (e.g. CHAPS, BACS, Cheques) Life Assurance Claims Precepts to other precepting authorities Routine transfers to Government Departments (e.g. Inland Revenue, NNDR) Pension payments Authorisation of sundry debtor refunds	Any cheque, or supporting document for BACS/CHAPS over £50,000 must be physically signed by an authorised person. Any payment over £1,500,000 must be counter signed by another authorised person. Any payment over £3,000,000 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	Not applicable	Not applicable	Not applicable	£1,500,000
Employee Staff Expenses	Payments to employees staff made through the electronic expenses system: Mileage, Overtime, Hourly Salary, Standby, Eye care, Subsistence, Parking, Public transport.	Any claim where the employee's manager is not available can be authorised by a <u>S</u>super <u>U</u>ser.	A post holder can authorise any claim of an employee whose post reports to theirs in the management structure. <u>A claim submitted by a Director can only be authorised by another Director or a Super User. A claim submitted by the Chief Executive Officer can only be authorised by another Statutory Officer.</u> This is controlled electronically by the system. Claims should not be submitted and authorised by the same person.			

Pay Advances		Any payment over £500 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	£500	£200	Not applicable	Not applicable
--------------	--	---	------	------	----------------	----------------

Notes to Appendix 1

1. These limits relate to NET expenditure (net of VAT).
2. The authorisation rules in relation to income are laid out in Financial Regulation 19.
3. The authorisation rules in relation to changes in staff remunerations are laid out in the Pay Policy.
4. The rules in relation to signing agreements are laid out in Contract Procedure Rules and the Constitution
5. Some posts are designated as Heads of Services in relation to this policy where there is not a direct Head of Service available in the management structure. These posts must be approved as such by the Director of the department.
6. A manual signature must be provided for all post holders who are nominated to be able to authorise any expenditure.

Posts Referred to in the Authorisation Limits (Section to be moved to the document setting out “Posts fulfilling the Roles in Financial Regulations”)

Finance Team Authorisers	<u>Employee Staff Expenses Super Users</u>
Director of Finance and Resources	Management and Financial Accounting Manager
Management and Financial Accounting Manager	Finance Strategy and Development Manager
Finance Strategy and Development Manager	Head of Audit and Assurance
Chief Management Accountant	<i>If above not available:</i>
Corporate Accountant	Director of Finance and Resources
	<u>Head of Personnel and IT</u>
	Director of Regulatory and Democratic Services

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **UPDATE ON AUDIT RECOMMENDATIONS**

SUMMARY

The annual recommendation survey has now been completed which has concluded that **70 (58%)** of previously outstanding or new audit recommendations have now been implemented. This includes all essential recommendations.

RECOMMENDATION

That the content of the report is noted.

INTRODUCTION

1. At the last meeting this Committee requested more information on the level of audit recommendations that are being implemented.
2. This report therefore provides information from the recently completed Annual Recommendation Implementation Survey which was started in June 2014. It should be noted that the survey has covered all recommendations from finalised reports up to the start of the survey. This differs to previous years where we only surveyed recommendations where the service had had at least a year to implement them.
3. The audit process also only now agrees and tracks recommendations deemed “essential” or “important”. “Advisory” issues are left to the manager’s discretion.

NUMBER OF RECOMMENDATIONS TO BE IMPLEMENTED

4. There were 120 audit recommendations to be implemented at the time of the survey as summarised below.

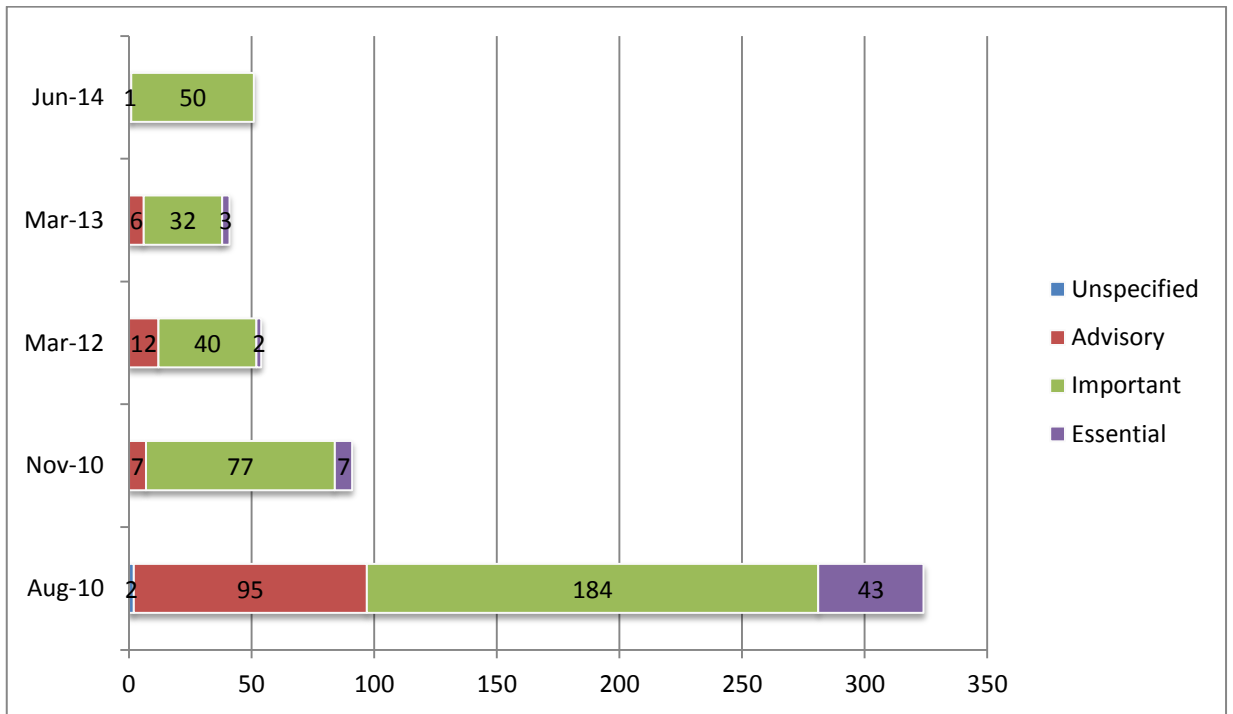
Source of Recommendations	Number of Essential Recs	Number of Important Recs	Total for 2014/15 survey	Total for 2013/14 survey
Brought forward as not yet implemented at the end of the previous survey (August 2013)	3	32	35	42
Reports finalised since the last survey	3	40	43	13
Reports previously finalised but not included in the last survey		49	49	74
Removed or downgraded to advisory	-1	-22	-23	-8
Reinstated after audit follow up	1	15	16	19
Number of Recommendations to be Implemented	6	114	120	140

LEVEL OF IMPLEMENTATION FOUND

5. At the end of the survey **70 (58%)** recommendations were recorded as implemented and a further **5 (4%)** were nearly complete.
6. All 6 “essential” recommendations have been recorded as implemented meaning there are currently none outstanding.
7. This compares to 102 (73%) reported as implemented from the previous year’s survey. However, it should be noted that of the 50 recommendations still outstanding from the current survey, 15 were less than a year old. Another 10 have been “risk accepted” by the service and so are flagged for further discussion and potential removal.
8. Most of the implemented statuses have been confirmed by the internal audit team. However, testing is needed for 15 of them to fully close them down.

RECOMMENDATIONS OUTSTANDING

9. The graph below shows the number of recommendations still outstanding that are being carried forward compared to previous years.



- Audit resource will be used over the coming months to review the older recommendations to make sure they are still fit for purpose and facilitate a plan of action to reach implementation.

RISK ASSESSMENT

- There are no significant risk considerations in relation to this report

CONCLUSION

- Recommendations arising from audit reports are being actively tracked and followed up. Appropriate implementation rates are being found, particularly of the recommendations made to address higher risks.

Background Papers: None

Reference Papers: Quarterly audit progress reports for the Municipal year

Enquiries:

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

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **24 November 2014**

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

Subject: **REVIEW OF COMMITTEE WORK PROGRAMME**

SUMMARY

This report reviews the current Work Programme for the Committee.

RECOMMENDATION

That the Work Programme for the rest of the year, as shown in [Appendix A](#), is approved.

INTRODUCTION

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

WORK PROGRAMME 2014/15

2. The work programme for the year has been updated, as 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. 4 changes have been made to the programme as follows:
 - An additional report on Audit Recommendation Implementation has been added to the November agenda at the request of members.
 - The Counter Fraud Strategy and Investigation reports are being amalgamated as from the November Committee.
 - The update of the Sanctions and Redress Policy and the Internal Audit Strategy are postponed to future meetings.

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.

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2014/15

Appendices:

[Appendix A](#) – Audit and Governance Committee Work Programme 2014/15 as at November 2014.

Enquiries:

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

APPENDIX A

AUDIT AND GOVERNANCE COMMITTEE CURRENT WORK PROGRAMME 2014/15 as at November 2014

Committee Function and Report Subject		Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2014-15	Completed	Completed	Completed	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2013-14				
Review of the Constitution		As needed	2013-14				
ETHICAL FRAMEWORK AND STANDARDS (NEW)							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2013-14				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2014-15		Completed		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2014-15	Completed			
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2012-13				
	Annual Governance Statement	Annual	2014-15		Completed		
Key Policy	Review of Financial Regulations	3 yearly	2014-15	Completed	Postponed to November	Completed	YES
	Review of Contract Procedure Rules	3 yearly	2013-14		Postponed to March		Postponed from September
	Implementation of Treasury Management Policy and Strategy	Annual	2013-14			Completed	
Risk Management	Policy and Strategy	As needed	2012-13				
	Risk Management Progress Reports	6 monthly	2014-15		Completed		YES
	Business Continuity	3 yearly	2011-12		Postponed to March		Postponed from September
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2013-14				
	Counter Fraud Policy and Strategy	3 yearly	2013-14				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	3 yearly	2008-09		Postponed to		

Committee Function and Report Subject	Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
				June 2015		
Counter Fraud Strategy Progress	6 monthly	2014-15	Completed		Completed	
Counter Fraud Investigation Progress	6 monthly	2013-14	Completed		(combined report)	
INTERNAL AUDIT ASSURANCE						
Internal Audit Strategy	3 yearly	2006-07	Postponed to September	Postponed to November	Postponed to March	Postponed from June
Contractor Internal Audit Annual Plan	Annual	2013-14				YES
Contractor Quarterly Audit Reports	Quarterly	2014-15	Completed	Completed	Completed	YES
Head of Audit's Annual Opinion	Annual	2014-15	Completed		Additional report on recommendation implementation	
EXTERNAL ASSURANCE						
External Audit Annual Plan and Fee	Annual	2013-14		Additional report on 2014/15 fee		YES
External Audit Annual Inspection Letter	Annual	2014-15			Completed	
Annual Certification Report	Annual	2013-14				YES
Specific reports from external audit and inspection agencies	As needed	2011-12 (RIPA)				May be needed
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2014-15		Completed		
External Audit Results Report	Annual	2014-15		Completed		
OTHER						
Updates on legal issues	As needed	2014-15		Additional report on Openness of Local Government Bodies Regs 2014		
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				