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HAMBLETON
DISTRICT COUNCIL

AGENDA

Committee Administrator: Democratic Services Officer (01609 767015)

Monday, 13 March 2017

Dear Councillor

NOTICE OF MEETING

Meeting **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**
Date **Tuesday, 21 March 2017**
Time **9.30 am**
Venue **Main Committee Room, Civic Centre, Stone Cross, Northallerton**

Yours sincerely

J. Ives.

Dr Justin Ives
Chief Executive

To:	Councillors	Councillors
	R W Hudson (Chairman)	G W Dadd
	C Patmore (Vice-Chairman)	Mrs J Watson
	R A Baker	P R Wilkinson
	Mrs C S Cookman	

Other Members of the Council for information

AGENDA

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Any other business of which not less than 24 hours prior notice, preferably in writing, has been given to the Chief Executive and which the Chairman decides is urgent.

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Law and Governance (Monitoring Officer)

Subject: **REGULATION OF INVESTIGATORY POWERS ACT – REVIEW OF ACTIVITY
AND REVIEW OF POLICY**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The Council, like many public authorities, is governed by the Regulation of Investigatory Powers Act 2000 (RIPA). This Act ensures that public authorities comply with their obligations under the Human Rights Act when undertaking investigations which may interfere with the rights of individuals. The Act introduces safeguards on activities such as surveillance undertaken by public bodies.
- 1.2 The Audit, Governance and Standards Committee has been given responsibility for RIPA matters. This involves the Committee in reviewing the Council's Policy Statement from time to time and receiving quarterly reports on any activities which have been authorised under RIPA.

2.0 RIPA ACTIVITIES:

- 2.1 Although RIPA covers a number of activities undertaken by investigatory bodies (e.g., phone tapping by the Security Services and Police) its principle use in respect of Local Authorities relates to:-
 - covert surveillance, and
 - covert human intelligence sources.
- 2.2 Covert surveillance covers the monitoring, observing or listening to persons, their movements, conversations or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained. RIPA is most relevant to the Council's activities in effecting enforcement procedures such as the investigation and prosecution of offences. This would not normally include the initial investigation of contraventions such as planning enforcement or noise investigations, but would normally involve the later stages where criminal activity was a possibility. Although this could technically include breaches of Planning Enforcement Notices, breaches of Environmental Health Notices, fraud, etc., the Council's use of the powers has been very limited in recent years. For example, the Council has not used authorisations under the Act in the last three years.
- 2.3 From 1 November 2012 the Council is only able to use RIPA for directed surveillance for potential criminal activity with a possible penalty of at least six months imprisonment. This means that the Council can no longer use the procedure for low-level offences such as littering, dog control and fly-tipping. For serious offences the Council needs approval from a magistrate before it can use directed surveillance.
- 2.4 Another use of the Act is for the Police to authorise use of the Council's CCTV system for specific operations (general use of CCTV is not covered by the Act because this is not covert surveillance). The Police authorise themselves to use the Council's CCTV system for covert surveillance on approximately two occasions per year.

2.5 Covert human intelligence sources relate to the use of a third party to gather information. For example, this could be an informer or someone used to undertake test purchases. This is not an activity that the Council engages in at all. The Council also needs the approval of a magistrate to carry out this activity.

2.6 The only area in which the Council very occasionally involves itself where RIPA might be relevant is covert surveillance. It is necessary for the Council therefore to follow the legislation and the requirements of Government Codes of Practice. Most of the requirements of the Code are dealt with at an Officer level. However, Members are expected to approve a Policy on RIPA and to have some involvement in the monitoring of how the Council implements RIPA requirements.

3.0 REVIEW OF POLICY STATEMENT:

3.1 The Council's current Policy Statement on the use of powers under RIPA is attached as an Annex to this report. It is recommended that minor changes are made to reflect current post holder titles (see amendments to the attached policy in red).

4.0 INSPECTION BY THE OFFICE OF THE SURVEILLANCE COMMISSIONER:

4.1 The Office of the Surveillance Commissioner carried out its three-yearly inspection in November 2016. The report was generally positive, but suggested some actions:-

4.1.1 minor amendments to the Central Register of Authorisations;

4.1.2 a programme of training, including external trainers;

4.1.3 minor changes to the Council's guidance and procedure documents;

4.2 The recommendations will be implemented by Officers.

5.0 MONITORING OF RIPA ACTIVITY:

5.1 Codes of Practice on RIPA recommend that quarterly reports are made to Members on RIPA activity. Consideration of such reports has been delegated to the Audit, Governance and Standards Committee. This report therefore constitutes one of those reports and is intended to cover the period 25 January to 21 March 2017. There were no authorisations during this period. It is recommended that the Committee note the position.

6.0 RECOMMENDATION:

6.1 It is recommended that:-

- (1) the current Policy on the Regulation of Investigatory Powers Act be approved as amended;
- (2) it be noted that no RIPA authorisations were made by the Council during the period 25 January to 21 March 2017;
- (3) the position in respect of the inspection by the Office of the Surveillance Commissioner be noted.

GARY NELSON

Background papers: HDC RIPA Register of Authorisations
Author ref: GN
Contact: Gary Nelson, Director of Law and Governance (Monitoring Officer)
Direct Line No: (01609) 767012

HAMBLETON
DISTRICT COUNCIL

REGULATION OF SURVEILLANCE ACTIVITIES
POLICY STATEMENT

The Council acknowledges that surveillance plays a necessary part in a number of its functions, on a day-to-day basis. To meet its legal obligations, the Council will comply with the Regulation of Investigatory Powers Act 2000 and in particular:-

- follow the principles of a Code of Practice reflecting the principles of the Covert Surveillance Code of Practice issued by the Home Office;
- make sure the Code of Practice is adopted for each Council function;
- make the Code readily available to officers, Members and customers;
- arrange for a central record of authorisations;
- make sure the authorisation process is followed for covert surveillance;
- ensure that surveillance is lawful under the Human Rights rules;
- provide guidance and training for Members and officers at an appropriate level;
- ensure there are designated officers within each Directorate, with responsibility for implementing the rules for surveillance activities;
- ensure the Director of ~~Corporate Services~~ Law and Governance monitors compliance with the rules for surveillance activities.

Monitoring Framework:

Monitoring compliance with these policy statements will include the following:-

- audits by the Director of ~~Corporate Services~~ Law and Governance;
- cross-audits by practitioners of other Sections;
- reports to Management Team and Audit, Governance and Standards Committee on the level of RIPA authorisations;
- checking examples of authorisations;
- use of other accepted methodology for monitoring RIPA compliance, as standards emerge.

February 2017

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (s151 Officer)

Subject: **INTERNAL AUDIT THIRD PROGRESS REPORT 2016/17**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1. The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations 2015). The council has formalised its arrangements for internal audit within the Audit Charter. Internal Audit work is undertaken by Veritau who carries out work in accordance with the Public Sector Internal Audit Standards.
- 1.2 The Audit and Governance Committee approved the Internal Audit Plan for 2016/17 at its meeting held on the 22 March 2016. The purpose of this report is to inform Members of the progress made to date in delivering the 2016/17 Internal Audit Plan and any developments likely to have an impact on the plan throughout the remainder of the financial year.

2.0 THE REPORT

- 2.1 Veritau is progressing in the delivery of the agreed internal audit plan. Within the report there is a summary of progress made against the plan and information on planned start dates for the remaining work. There are no significant delays anticipated and therefore the programme of work is expected to be completed by the end April 2017.
- 2.2 In the period between 1 April 2016 and 28 February 2017 Veritau has completed seven pieces of work. Three reports have been finalised since the last committee and these covered Strategic Training, Council Tax/NNDR and Strategic Income collection and charging. A further audit has been issued as a draft report and work is ongoing on all other areas.
- 2.3 It is important that agreed actions are fully implemented by managers. The internal audit team carries out follow-up work throughout the year of previously agreed actions and escalates any issues that have not been addressed, with senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are currently no matters to bring to the attention of Members.

3.0 LINK TO COUNCIL PRIORITIES

- 3.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

4.0 RISK ASSESSMENT

- 4.1 There are no risks associated with this report.

5.0 FINANCIAL IMPLICATIONS:

5.1 There are no financial implications associated with this report.

6.0 LEGAL IMPLICATIONS:

6.1 There are no legal implications associated with the recommendations in the report.

7.0 EQUALITIES AND DIVERSITY ISSUES:

7.1 There are no equalities or diversity issues associated with the report.

8.0 RECOMMENDATIONS:

8.1 It is recommended Members note the work undertaken by internal audit in the year to date.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

Author ref: SC

Contact: Stuart Cutts; Audit Manager; Veritau North Yorkshire
Stuart.Cutts@veritau.co.uk



Hambleton District Council

Internal Audit Progress Report 2016/17

Period to 28 February 2017

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance and Standards Committee
Director of Finance (s151 Officer)

Date: 28 February 2017



Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report, to 'those charged with governance' progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the Internal Audit Plan 2016/17 at their meeting on the 22 March 2016. This report summarises the progress made to date in delivering the agreed programme of work.
- 3 This is the third Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2016/17. This report updates the Committee on the work completed between 1 April 2016 and 28 February 2017.

Internal Audit work completed

- 4 In the period between 1 April 2016 and 28 February 2017 we have completed seven internal audit pieces of work. A further two audits have been issued as a draft report and work is ongoing for all other audits in the plan. We are on target to deliver the agreed Audit Plan by the end of April 2017.
- 5 Further information on the progress of audits is included in Appendix A.
- 6 Further details on the findings from the three audits completed since the last Audit, Governance and Standards Committee on 24 January 2017 are included in Appendix B.

Audit Opinions

- 7 For most reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the definitions used are included in Appendix C.

Wider Internal Audit work

- 8 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Audit, Governance and Standards Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice to Members.
 - **Ongoing support to management and officers;** we meet regularly with management to provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council.

- **Contractor assessment;** this work involves supporting the assurance process by using financial reports obtained from Experian (Credit Rating Agency) to assess the financial standing of potential contractors.
- **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. We follow up agreed actions either as part of our ongoing audit work, or by separate review. This work forms part of ongoing conversations with senior management. We currently have no matters to report to members as a result of our follow up work.
- **Risk Management;** Veritau advise on the Council's risk management processes.
- **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues. In 2016/17 we have been asked by the Chief Executive to review one specific area. A draft report was provided to management on 9 February 2017.

Stuart Cutts
Audit Manager
Veritau Ltd

28 February 2017

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Council Tax and NNDR	Final Report	Substantial Assurance	March 2017
Housing Benefits	In Progress		
Revenues and Benefits System Access Controls	Draft Report		
Corporate Finance			
IDEA data analytics and data matching	In Progress		
Sundry Debtors	In Progress		
Creditors	In Progress		
Income – Receipting	Planning		
Income – Strategic collection and charging	Final Report	Reasonable Assurance	March 2017
Payroll	Final Report	Substantial Assurance	January 2017
Performance and Improvement			
Performance Improvement and Data Quality	Planning		
Risk Management	In Progress		
Projects			
Fraud and Corruption	Draft Report		
Strategic Asset Management	In Progress		
Purchase to Pay	Deferred		
Payment Card Industry Data Security Standards (PCI DSS)	Deferred		
Director of Leisure and Environment			
Leisure Centres	Final Report	Substantial Assurance	January 2017
Closed Circuit Television (CCTV)	Planning		
Environmental Health	Final Report	Reasonable Assurance	January 2017
Business Continuity	In Progress		
Disaster Recovery	In Progress		
Director of Law and Governance			
Strategic Training	Final Report	Reasonable Assurance	March 2017
Contract Management – Training	Completed		
Contract Management – Contracts Register	In Progress		
Director of Economy and Planning			
Community Infra- Structure Levy	In Progress		
Follow-Ups			
	Ongoing		

Summary of Key Issues from audits completed to 28 February 2017; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Strategic Training	Reasonable Assurance	<p>Hambleton's Council Plan (2015-2019) has investment in people as one of the Council's four 'core FOUNDATIONS'. The plan states the Council will:</p> <ul style="list-style-type: none"> • Empower the workforce • Develop the skills and abilities of officers throughout the organisation • Provide excellent training opportunities • Create a healthy environment where staff want to work • Seek to maintain a good work-life balance <p>The purpose of the audit was to review training arrangements to consider whether:</p> <ul style="list-style-type: none"> • An effective training and development strategy is in place and being followed • Management at all levels apply key requirements to employee performance and management arrangements • Procedures are in place and are working to evaluate the success of training 	February 2017	<p>Strengths:</p> <p>Training is being given a corporate priority with key messages included in the Council plan and the plans to implement a training and development strategy.</p> <p>There is a corporate training schedule in operation, covering topics such as sickness absence management, cyber security, dealing with difficult people, and using Word.</p> <p>Areas for Improvement:</p> <p>Whilst the overall arrangements need further development to deliver the Council plan aspirations, progress is being made. The HR department are in the early stages of developing a training and development policy. However, there are no specific plans for rolling out the policy once it is written.</p> <p>It is recognised that embedding all of the necessary aspects of the training and development policy may also be a significant challenge. Organisation factors such as culture, existing ways of working and a lack of clarity on responsibilities may be barriers to successful delivery.</p> <p>The 'Post Entry, Qualification and Vocational Training Policy' has also not been reviewed since 2008.</p>	<p>Human Resources (HR) will ensure sufficient communication is given on the new training and development policy. A briefing on the new policy will be delivered, which is standard practice for HR policies.</p> <p>Clear procedures covering the identification of training and development opportunities will be included in the Training and Development Strategy.</p> <p>The Post entry, qualification and vocational training policy is included for review by HR.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Council Tax and NNDR	Substantial Assurance	<p>Council Tax and National Non Domestic Rates (NNDR) are two of the council's key funding streams for the provision of its services.</p> <p>The 2015/16 audit had an overall opinion of substantial assurance. For this year's audit we focused review on some potentially higher risk areas, which have the effect of reducing the amount of Council Tax and NNDR to be paid.</p> <p>We reviewed these areas to ensure:</p> <ul style="list-style-type: none"> Exemptions, relief and disregards were only applied to eligible individuals and businesses Joint and several liability were applied correctly for payments of Council Tax and NNDR. 	February 2017	<p>Strengths:</p> <p>Procedures and controls help to ensure 'Single person resident' discount is applied to eligible individuals.</p> <p>We found appropriate controls to ensure the 'Armed Forces' discount was applied accurately. Discrepancies with the payment arrangements had been dealt with efficiently between the Senior Taxation Officer and MOD Housing Stock Manager.</p> <p>Testing on the NNDR accounts with 'Small business' relief and 'Empty Property Rates for Industrial Hereditament' exemption showed there were effective controls to ensure they were only applied to eligible reliefs.</p> <p>Areas for Improvement:</p> <p>There were no procedure notes available for the Enquiry Officer to follow when carrying out inspections.</p> <p>In some instances when an application for a discount is made via the phone, we noted the liable persons name is not obtained and confirmed by the Officer.</p>	<p>Procedure notes for inspections are being written.</p> <p>When the authority receives a phone call application, the person liable for payment will be clearly identified and recorded on the customer account.</p>
Strategic Income Collection and Charging	Reasonable Assurance	<p>There are challenges Councils face which impact on the income they are able/want to collect and how they collect it. Beyond the financial importance charging can also be used as a policy instrument to support service and strategic objectives.</p>	February 2017	<p>Strengths</p> <p>The Council has a 10 year Financial Strategy in place which is reviewed on an annual basis and is approved by Cabinet and Council prior to the beginning of the new financial year.</p> <p>Departments within the Council consider different ways of generating income for the Council. In some cases methods have been</p>	<p>To promote the importance of income generation across the Council and raise the awareness of the importance of commercialisation as a funding source for the council in future, a corporate income charging and collection strategy is being developed.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>With these challenges Councils inevitably have difficult choices to make.</p> <p>A strategic approach to income and charging will provide guidance and structure to help deliver a consistent approach throughout the organisation.</p> <p>Our work considered whether:</p> <ul style="list-style-type: none"> • The Council undertakes regular reviews of their approaches to charging, both within service areas and across the whole council. • An effective strategy is in place clearly outlining the Councils objectives for income for the present and future, and appropriate actions and agendas exist to ensure these objectives are achieved successfully. 		<p>implemented, including Operational Services introducing the green waste charging. Through discussion with Leisure Centres, we also saw areas where improvements have been made.</p> <p>Areas for Improvement</p> <p>There are no corporate objectives or a written corporate strategy or policy defining the Councils objectives for income charging and collection. There are no key actions in place to support an income strategy allocating roles and responsibilities for income collection and charging. The financial strategy does not cover income collection and charging in detail.</p> <p>Every year the Council conducts service wide review of fees and charges. However the results of the last review (which occur annually as part of the budget process) does not show a robust 'Council wide' challenge of the 'whether to charge/ what to charge for' services.</p>	<p>As part of this, current collection and charging arrangements will be reviewed and will inform the strategic objectives for the revised income strategy.</p>

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (s151 Officer)

Subject: **STATUTORY AUDITOR – QUARTERLY UPDATE : AUDIT PLAN**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is for the Council's statutory auditor, Ernst & Young LLP, to provide the Committee with the Audit Plan which sets out how they intend to carry out their responsibilities as auditor. The Audit Plan's purpose is to provide the Audit, Governance and Standards Committee with a basis to review the proposed audit approach and scope for the 2016/17 audit in accordance with regulations.
- 1.2 A representative from Deloitte will be in attendance at the meeting to go over the report. It will also provide an opportunity for Members to question the auditor.
- 1.3 This Audit Plan summarises the initial assessment of the key risks driving the development of an effective audit for Hambleton District Council ("the Council"), and outlines the planned audit strategy in response to those risks. The report is attached at Annex A.
- 1.4 Also attached at Annex B is Ernst & Young LLP's most recent sector update paper which is provided for information

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approving the recommendation.

3.0 RECOMMENDATIONS:

- 3.1 It is recommended that Members note the Audit Plan, the audit approach and scope for 2016/17 audit.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (s151 Officer)

Background papers: None

Author ref: LBW

Contact: Louise Branford-White
Director of Finance (s151 Officer)
Direct Line No: (01609) 767024

Hambleton District Council

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better
working world

Audit, Governance and Standards Committee
Hambleton District Council
Civic Centre
Stone Cross
Northallerton
North Yorkshire
DL6 2UU

February 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit, Governance and Standards Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd ("PSAA"), auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for Hambleton District Council ("the Council"), and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 21 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Nicola Wright
Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd ("PSAA") issued the "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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

The "Terms of Appointment from 1 April 2015" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice ("the Code") and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit, Governance and Standards Committee, and is prepared for the sole use of the audited body. 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

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness; and
- ▶ Our review of the Whole of Government Accounts return, which we are required to report to the National Audit Office ("NAO"), to the extent and in the form required by them.

We will also report to you by exception in respect of your governance statement and other accompanying material, as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We summarise below the significant matters that are relevant for planning our audit. More information about each of these risks, and our proposed response, is provided in sections two and three of this report.

Significant risks – financial statements

- ▶ Risk of fraud in revenue and expenditure recognition; and
- ▶ Risk of management override of controls.

We will provide an update to the Audit, Governance and Standard Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)

Our audit approach

Risk of fraud in revenue and expenditure recognition

Under ISA (UK and Ireland) 240, there is a presumed risk that revenue may be misstated due to improper recognition. However, in the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We will:

- ▶ Review and test revenue and expenditure recognition policies;
- ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- ▶ Develop a testing strategy to test material expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and
- ▶ Review and test revenue and expenditure cut-off at 31 March 2017.

Risk of management override of controls

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We consider that for the Council, the risk of management override of controls manifests itself through manipulation of accounting estimates (i.e. non-routine income and expenditure accruals and provisions).

In addition, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

We will:

- ▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Review accounting estimates for evidence of management bias;
- ▶ Evaluate the business rationale for significant unusual transactions; and
- ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Other financial statement risks

Our audit approach

Valuation of land and buildings

Land and buildings is the most significant balance in the Council's Balance Sheet. The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

In addition there is judgement applied in determining the classification of the asset between property, plant and equipment and investment property, which has an impact on the valuation basis used.

We will:

- ▶ Review the output of the Council's valuation team;
- ▶ Challenge the assumptions used by the Council's valuation team by reference to external evidence, the CIPFA code of practice on local authority accounting and our EY valuation specialists; and
- ▶ Test the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

Accounting for pension obligations

Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.

The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.

We will:

- ▶ Review the output of the report from the Council's actuary;
- ▶ Review the assumptions used by the actuary to determine whether they are in our expected range through liaison with our EY actuaries; and
- ▶ Test the journal entries for the pension transactions to ensure that they have been accurately processed in the financial statements.

Recoverability of loans with Broadacres Housing Association

The Council has loaned significant sums of money to Broadacres Housing Association to support them in their development activities. In February 2017, the Homes and Communities Agency ("HCA") issued a regulatory judgement on Broadacres and gave them a governance rating of G3, which is non-compliant governance arrangements.

The main issues that led to the governance rating is that Broadacres failed to monitor and respond to foreseeable financial risks in its commercial development subsidiary, exposing them to a combination of material losses, impairments and write-offs. This could be a trigger to suggest that management may want to consider whether there is any impact on the recoverability of the loans.

We will:

- ▶ Discuss with management how they have satisfied themselves that the sums loaned to Broadacres are recoverable; and
- ▶ Review the latest financial information available on Broadacres and consider whether there are any indicators that the value of the debtors with Broadacres in the accounts are impaired.

Changes to Code of Practice on Local Authority Accounting

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") including changes in financial statement presentation to reflect new reporting requirements.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement ("CIES") and the Movement in Reserves Statement ("MIRS"), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice ("SeRCOP"). Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will also require audit review.

We will:

- ▶ Review the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ Review the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agree restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards, our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. For 2016/17, this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. We have not identified any significant risks to our Value for Money opinion.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements; and
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statements audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

4.2 Audit process overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit, Governance and Standards Committee.

Internal audit

We will regularly meet with Stuart Cutts, Internal Audit Manager, and review the internal audit plan for the year and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of land and buildings and investment properties	Council's valuer EY property valuation specialists (as required)
Pensions liability	Aon Hewitt (Council Actuary) EY actuarial specialists

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the work in relation to the financial statement and value for money risks, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the annual governance statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statement of the Council is £856,000 based on 2% of gross operating expenditure. We will communicate uncorrected audit misstatements greater than £42,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the Council is £40,754.

4.6 Your audit team

The engagement team is led by Nicola Wright, Executive Director, who has prior experience on the Council and has overall responsibility for ensuring that our audit delivers high quality and value to the Council. Nicola will be supported by Claire Mellons, Senior Manager, who will be responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit, Governance and Standards Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit, Governance and Standard Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Committee Timetable	Deliverables
High level planning	December 2016	March 2017	Audit Plan
Risk assessment and setting of scopes	January 2017	March 2017	Audit Plan
Early testing	March 2017		
Year-end audit	June 2017		
Completion of audit	July 2017	July 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	August 2017	September 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; and ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the PSAA's Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is less than 1:1. No additional safeguards are required. Non-audit fees incurred relate to the preparation of a report outlining the implications of a joint venture arrangement that management were looking to enter in to.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Nicola Wright, the audit engagement director, and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Opinion Audit and VFM Conclusion	40,754	40,754	40,754
Total Audit Fee – Code work	40,754	40,754	40,754
Certification of claims and returns ¹	11,228	11,228	11,286
Non-audit work incurred to date	8,000	n/a	n/a

All fees exclude VAT.

The agreed fee for 2016/17 presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit, Governance and Standards Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitation.	► Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process 	► Audit Results Report
Misstatements <ul style="list-style-type: none"> ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant 	► Audit Results Report
Fraud <ul style="list-style-type: none"> ► Enquiries of the Audit, Governance and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud 	► Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity 	► Audit Results Report
External confirmations <ul style="list-style-type: none"> ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures 	► Audit Results Report
Consideration of laws and regulations <ul style="list-style-type: none"> ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit, Governance and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit, Governance and Standards Committee may be aware of 	► Audit Results Report

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
Certification work <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification

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Local government audit committee briefing

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Key questions for the audit committee

Find out more

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

EY item club winter forecast

In its latest forecast the EY Item Club cautions that, whilst it may look like the economy is taking the referendum in its stride, the impression could be deceptive. A timely reminder that trouble may lie ahead is provided by Sterling's recent performance.

The UK economy is forecast to undergo a gradual dip and recovery over the coming four years, with GDP growth slowing to 1.3% in 2017 and just 1.0% next year, before picking up to 1.4% in 2019 and 1.8% in 2020. The ability of the economy to deliver against this forecast is seen as highly dependent on its foreign trade performance, the expectation is that this will improve this year as consumer spending slows down.

In terms of inflation as measured by the Consumer Prices Index it is expected to rise in excess of 3% by the end of 2017, before falling back towards the Bank of England's 2.0% target in 2018. With the economy slowing down and wage inflation remaining subdued, the forecast is that base interest rates will be held at 0.25% by the Monetary Policy Committee until the spring of 2018.

Looking ahead, the UK's trade performance and output growth in 2019 and beyond will depend critically on the exit terms that can be agreed with the EU27 and other countries. Whilst there is greater clarity about the UK's negotiating position, elections coming up later this year in several European countries mean that the negotiating position of the EU27 will take longer to get a clear picture of. Additionally, the US election result complicates Britain's exit from the EU due to uncertainty over the US economic and foreign policy.

Social Care Precept and New Homes Bonus

The 'Provisional local government finance settlement 2017/18' announced that an additional £900mn would be used to fund the social care system over the next two years. This will be made up of two parts:

- ▶ £240mn transfer from the new homes bonus
- ▶ £652mn from increasing the social care precept (£208mn in 2017/18 and £444mn in 2018/19)

New Homes Bonus

The consultation for the new homes bonus ended and the Government made a number of revisions to the grant. The transfer from the new homes bonus represents a change that ensures that councils will only receive funding for housing built above the national housing growth baseline of 0.4%. There will also be a movement to five year payments from 2017/18 and four year payments from 2018/19.

There are no proposals to withhold grants for those authorities without a local plan in 2017/18 but this will be revisited for 2018/19. The bonus will continue to be unringfenced as in previous years.

Social Care Precept

Councils will have the flexibility to increase the dedicated social care precept by up to 3% in 2017/18 and 2018/19 (this was previously capped at 2% for each of the three years 2017/18 to 2019/20). If this is chosen it will be equivalent to an increase of £1 a month on an average Band D Council Tax bill. However the social care precept would need to remain at 6% over the next three years, therefore if the increased 3% was taken in 2017/18 and 2018/19 it could not be increased again in the following year.



Government and economic news

Within the 'Provisional local government finance settlement 2017/18' It has been highlighted that increased funding is not the only way to improve social care but better integration of the health service and local government is needed. In Oxfordshire this has led to a 40% fall in delayed discharges in 6 months and in Northumberland increased work between the council and the health service has led to a 12% reduction in demand on residential care.

Local Government Funding Settlement

The four year funding settlement has been agreed to by 97% of councils. This will mean councils will have £7.6bn in total dedicated social care funding over the four years up to 2019/20. In return they will have to publish efficiency plans online.

It is expected that top-tier authorities are likely to benefit most from the settlement as they have high-demand critical services and will therefore receive more funding. However district councils will see a greater squeeze on their budgets due to the reduction in the new homes bonus.

This comes as a step towards devolution. The introduction of fully retained business rates will also bring about more power for councils to serve their local communities. However this does open councils up to more risk. For this to be beneficial the economy will need to grow and more houses will need to be built. Councils therefore need to think about how they will ensure that this does not leave them in a worse position than through central government funding.

Funding for new care model vanguards

In order to support and spread the work of new care model vanguard projects, NHS England has announced over £100mn of funding being made available. NHS England sees that the existing vanguards, partnerships of NHS, local government, voluntary, community and other organisations are improving the healthcare people receive, preventing ill health, and saving funds.

They are seen as key to the delivery of Sustainability and Transformation Plans (STPs) which are being developed across the country and, in addition to funding, the vanguards receive support to implement their plans from both NHS England and other national bodies. This includes how they harness new technology including apps and shared computer systems, and to develop their workforce so that it is focused around patients and their local populations. Vanguards are required to meet a number of conditions to obtain funding, including:

- Demonstrating clear improvements in quality and costs/savings
- Spreading their new care models, both within their STP and sharing with others (including producing guidance and materials for others to use)

The announcement highlights examples of areas the latest funding will be used on, and examples of work done to date. These include:

- **Fylde Coast Local Health Economy vanguard** – a new 'extensive care service' bringing together different health professionals offering targeted support for older patients with multiple conditions, this has contributed to significant reductions in areas such as non-elective admissions (25%) and A&E attendances (13%)
- **Mid Nottinghamshire Better Together vanguard** – joined-up community teams are working with patients and their families/carers, providing physical, mental and social care support to ensure people are wherever possible cared for at home. The vanguard has reported reductions in long term admissions to care homes and acute bed days, together with significant year-on-year reductions in avoidable patient attendances (20.5% for patients aged 80 years and above compared to 2015/16)



Government and economic news

► **East and North Hertfordshire Clinical Commissioning**

Group vanguard – employing pharmacists to work with GPs, care home staff and other healthcare professionals to provide detailed medicine reviews for residents. Working with the care homes, the vanguard has already reviewed over 900 patients and the use of 8,000 medicines. Of these over 1,000 medicines have been stopped, including nearly 200 which could have increased the risk of falls. The estimated direct cost savings are in excess of £160,000

Financial Sustainability of Schools

The Department of Education has predicted that mainstream schools will have to find savings of £3bn (8%) by 2019/20. This is expected to come from efficiencies from the following:

- £1.3bn from better procurement
- £1.7mn from using staff more efficiently

The Government has proposed to increase the schools budget over the next four years, and by 2019/20 the increase will be 7.7% compared to the 2015/16 level. However the increase in pupil number is expected to be 3.9% in the same period, once inflation is taken into account; this is a real time reduction in funding per pupil.

The Department continues to publish advice on financial management and efficiency savings.

The proportion of secondary schools overspending rose from 34% in 2010/11 to 59% in 2014/15. For academies this rose from 39% to 61%. The reasons for this are unclear, and the sustainability of this spending is unknown.

Highway Network Assets

The depreciated replacement cost accounting for Highway Network Assets is expected to come into effect from 1 April 2017, but is subject to confirmation from CIPFA. EY has run a number of workshops for clients and there are a range of levels of confidence over the accounting treatment for the asset. It can however be seen that the levels of confidence have increased from this time last year.

The key question for councils to consider will be how can we demonstrate that their Highways Asset Management System is complete and that all assets exist.

By following the DREAM approach set out below we believe the task will run smoother.

Document highways systems: Almost all highways and engineering IT inventory information has not been subject to audit and lack detailed procedure manuals/notes. Full documentation of the key core data systems should be completed as one of the initial tasks that an authority carries out.

Reports and reconciliations: Assess the information requirements of the task and whether the existing systems can produce the required reports and reconciliations or will new reports and reconciliations be needed? Identify any corrective action required.

Evidential based: The quality of the inventory is key to the change. So as well as documentation of inventory systems, establish how you will evidentially prove that the inventory is complete and the named assets exist. This includes key asset dimensions. However, before engaging expensive external contractors to do this consider all the processes that you currently have in place that actually do this ranging from routine cyclical inspections to independent system reviews. Use this to identify areas where 'top-up' work is required.



Government and economic news

Audit: Early and regular engagement with both internal audit (IA) and external audit (EA) is a key determinant of successful implementation. IA can assist in establishing documentation procedures and can carry out system audits of those systems. Sharing your proposals with EA in advance will reduce the risk of abortive work. Decisions on what work you actually do are a matter for the authority, but the EA will provide comments on proposed approaches.

Materiality: This is a key concept both to the authority as the accounts are stated to include all material items and EA who audit to a calculated materiality level. Materiality has both quantitative and qualitative aspects. In simple terms the quantitative identifies the level at which consideration needs to be given to whether omission of an item or inclusion of an error requires correction. The qualitative level is where a professional judgement is made as to whether correction of that item would influence decisions of the users of the accounts.

As the Highway Network Asset is to be classed as a single asset the materiality is based upon the total value and not the constituent parts. Due to the importance of this amount discussions around the level at which the authority is considering setting it at should take place with your external audit team at an early stage to ensure that this will not lead to problems in the audit process.

For further information please consult with your audit team

Sustainability and Transformation Plans

Sustainability and Transformation Plans (STP) have now been produced and are designed to articulate how individual organisations will play their part in delivering their locally agreed STP objectives, including sustainable financial balance across the health economy.

From April 2017, access to NHS transformation funding will be linked to effecting delivery of the STP. These include meeting control totals to reduce deficits and meeting certain performance requirements. STPs represent a shift in focus from the role of competition within the health system to one of collaboration – referred to as ‘place-based planning’. NHS organisations are telling us that the changing needs of their populations are best met through integrated models of care, with the delivery of care being best met by different areas of the NHS working in a co-ordinated way. The King’s Fund has argued that a place based approach to planning and delivering health and social care services is the right approach – and that this should also include collaborating with other services and sectors outside the NHS – with the aim of improving the health and wellbeing of local populations.

Development and delivery of STPs is a complex task, with large footprints, involving many different organisations, in an already stretched environment in terms of finances and capacity. There are further challenges with the need to address weaknesses in NHS incentives to work together and to avoid organisations focussing on individual goals rather than the effective implementation of STP objectives – for example, NHS Trusts are closely monitored on their own performance targets.

The Plans have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the Plans are required to show how they will bring the NHS back into financial balance. Given the short timeframes, the submitted Plans will need further development and engagement before they can be effectively implemented.



Government and economic news

All parties to the STP will need to collaborate to ensure the plans take full account of the pressures faced by the individual parties. Whilst the process provides opportunities for areas with challenging finances to identify solutions, there will be difficult decisions to be made about the range, type and location of services that are delivered. Per the NHS Confederation, the important element of prevention requires a strong role from public health as well as wider Council services such as housing, leisure and recreation, planning and children's services.

The leadership of the STP is critical to the success of the plan. The role of the STP leaders needs to be clarified with many leads finding it difficult to manage their original responsibilities alongside their leadership role. There are plans for some leaders to share leading more formally in the future. However where there are a large number of organisations involved this may be more difficult to do.

Priorities for social care in 2017

The Kings Fund has set out what it believes the five priorities should be for social care in the current year as follows:

- ▶ **Supporting new care models centred on the needs of patients** – Giving greater priority to public health and prevention, through partnerships between local government, the NHS, and other organisations, focused on both supporting people to remain in good health for as long as possible and engaging the public in tackling the causes of ill health. Additionally, they emphasise the need for continued support for vanguards both in delivering in their areas and spreading that good practice across the system
- ▶ **Strengthening and implementing sustainability and transformation plans** – The Kings Fund suggests that, to ensure that the service changes and the financial plans that underpin them are credible, all STPs need to be stress

tested. It also highlights that STPs have 'no basis in statute' and suggests that their governance is formalised to align their work with the responsibilities of the boards running NHS organisations

- ▶ **Improving productivity and delivering better value** – With the need for increasing productivity becoming more urgent as funding decreases and deficits amongst NHS providers increases, the fund suggests that the priority for every NHS organisation should be to support clinical teams to reduce unwarranted variations in care and to improve care. It sees the boards of NHS organisations as having a key role in leading this work, ensuring that developing the cultures in which improvement is supported and valued and making resources available to support implementation
- ▶ **Developing and strengthening leadership at all levels** – It is clear that clinical leaders have a crucial role, working with operational managers, to deliver high-quality care. This is where many of the productivity opportunities arising from changes in clinical practice can be realised. They argue that this requires leaders who are (in their words) 'comfortable with chaos' because they can work within fluid and often rapidly changing organisational arrangements and that the NHS can learn from local government
- ▶ **Securing adequate funding for health and social care** – They refer to the need for a debate about a new settlement for health and social care, building on the work of the Barker Commission, and going further than short-term interventions that have sought to shore up the system. They argue that an equitable and sustainable system would be one in which public funding is increased (paid for by increases in taxes and National Insurance and changes to some existing benefits), and a closer alignment between entitlements to social care and health care



Accounting, auditing and governance

PSAA Audit Services Procurement Strategy for the appointment of local auditors

The PSAA is entering into contracts with audit firms to make auditor appointments by 31 December 2017. There are a total of 493 eligible authorities who have been invited to opt in. These include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

The timetable for the appointment is as follows:

Key milestone	Target date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	16 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt-into the scheme for audits of 2018/19 accounts	9 March 2017
Deadline of submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA board approves contract award	30 June 2017

The contract will be awarded for five years to suppliers but PSAA may extend this contract by two years. It is expected that opting-in will achieve lower audit fees than those authorities that choose to negotiate alone. Fees are expected to be published in March 2018.

Report on the results of auditors work LG bodies 2015/16

In December 2016 PSAA published its first report on the results of auditors' work across 497 principal local government bodies, including 357 councils, 31 fire and rescue authorities, 76 police bodies and 33 other local government bodies, and 9,756 small bodies, with a turnover of less than £6.5mn, including 9637 parish councils. The results within the report cover audit work on the financial statements, the WGA return, arrangements to secure value for money and any exercise of the auditor's statutory reporting powers.

The timeliness and quality is broadly consistent with prior year, however the number of early unqualified opinions (issued by 31 July 2016) doubled compared to those issued in respect of 2014/15.

96% of auditors issued an opinion on the accounts by 30 September 2016 and for the third year in a row there were no qualified opinions on principal bodies. The proportion of qualifications on value for money arrangements increased from 4% to 6%.

With faster close in place from the 2017/18 financial year, there is a need for efficiencies from both local government bodies and their auditors in order to maintain the level of performance shown in this report. EY have produced an article on 'Accelerating your financial close arrangements', this can be found by following this link [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf). The report provides suggestions such as reviewing the format of the accounts, reviewing the approach to estimates and managing members' expectations, amongst others.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

Has the Authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditors from 2018-19? Has the authority decided whether they will use the revised flexibility on the social care precept for 2017/18 and 2018/19?

How confident is the authority about its preparation for the introduction of Highway Network Assets? Have there been discussions with the external audit team on the key issues and plans for implementation?

Has the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans?

Has the Authority put plans in place to meet the faster close requirements for 2017/18?



Find out more

EY Item Club winter forecast

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

Social Care, Precept and New Homes Bonus

http://www.publicfinance.co.uk/news/2016/12/council-tax-precept-and-new-homes-bonus-deployed-stem-social-care-crisis?utm_source=Adestra&utm_medium=email&utm_term

<https://www.gov.uk/government/news/dedicated-adult-social-care-funding-forms-key-part-of-continued-long-term-funding-certainty-for-councils>

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

Four year funding settlement

<http://www.publicfinance.co.uk/news/2015/12/local-government-settlement-offers-councils-four-year-funding-deals>

Funding for new care model vanguards

<https://www.england.nhs.uk/2016/12/vanguard-funding/>

Financial Sustainability of Schools

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

Sustainability and Transformation Fund

<https://www.kingsfund.org.uk/blog/2016/11/will-stps-deliver-changes-we-wish-see-our-health-and-care-services>

<https://www.england.nhs.uk/wp-content/uploads/2016/02/stp-footprints-march-2016.pdf>

<https://www.kingsfund.org.uk/projects/sustainability-and-transformation-plans>

Priorities for social care in 2017

<https://www.kingsfund.org.uk/publications/priorities-nhs-social-care-2017>

PSAA Audit Services Procurement Strategy for the appointment of local auditors

<http://www.psaa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

Report on the results of auditors work LG bodies 2015/16

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

[http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

Notes

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Notes

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ED None

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (s151 officer)

Subject: **INTERNAL AUDIT PLAN 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS). In accordance with those standards and the Council's Audit Charter, internal audit is required to prepare an audit plan on at least an annual basis. This report includes the proposed Internal Audit plan for 2017/18.

2.0 THE REPORT

- 2.1 Once a year the ongoing audit planning process is formalised with the production of the Annual Internal Audit plan. The plan is based on a risk assessment which helps to ensure limited audit resources are prioritised towards those areas which are considered to be the most appropriate and/or which contribute the most to the achievement of the Council's priorities and objectives.
- 2.2 The content of the internal audit plan has been subject to consultation with directors and other senior officers, and discussion with the Chair of this committee.
- 2.3 The audit plan includes an estimate of the time individual elements will take. The estimate of time seeks to reflect the depth of risks and work required and was agreed between internal audit and officers during the planning process. Discussions at the planning process plus previous knowledge and experience help inform these estimates.
- 2.4 It is important that audit resources are used effectively and continue to focus on those areas which will add the most value. Continued dialogue and collaboration with management will therefore take place through the year to ensure that any new risks or changed priorities are identified and reflected in planned work. As a result, the Plan will continue to evolve throughout the year to take account of changes in the Council's priorities and risk profile. The Plan should therefore be viewed as a relatively flexible document. Further information on the internal audit planning process was provided to this committee in June 2016.
- 2.5 The audit plan includes 285 days of audit work which is the same number of days as in 2016/17.

3.0 DECISIONS SOUGHT:

- 3.1 The Audit, Governance and Standards Committee is asked to approve the proposed Internal Audit Plan for 2017/18.

4.0 LINK TO COUNCIL PRIORITIES

- 4.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

5.0 RISK ASSESSMENT:

- 5.1 There are no risks associated with the recommendations in the report.

6.0 FINANCIAL IMPLICATIONS:

- 6.1 There are no financial implications associated with the recommendations in the report.

7.0 LEGAL IMPLICATIONS:

- 7.1 There are no legal implications associated with the recommendations in the report.

8.0 RECOMMENDATIONS:

- 8.1 It is recommended that the Internal Audit Plan 2017/18 be approved.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

Author ref: SC

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Hambleton District Council

Internal Audit Plan 2017/18

Audit Manager:
Head of Internal Audit:

Stuart Cutts
Max Thomas

Circulation List:

Member of the Audit, Governance & Standards
Committee
Chief Executive
Executive Director & Deputy Chief Executive
Management Team

Date:

March 2017



Introduction

- 1 This document sets out the planned 2017/18 programme of work for internal audit, provided by Veritau for Hambleton District Council.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards. In accordance with those standards and the Council's Audit Charter, internal audit is required to prepare an audit plan on at least an annual basis.
- 3 The Head of Internal Audit is required to produce an annual internal audit opinion to the Council based on an objective assessment of the effectiveness of the framework of Risk Management, Governance and Internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the Council and provide a fully informed body of work to provide that opinion.
- 4 The internal audit plan has been prepared on the basis of a risk assessment. This is intended to ensure limited audit resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the District Council's priorities and objectives. The content of the internal audit plan has been subject to consultation with directors and other senior officers.
- 5 The internal audit plan is submitted for formal approval by the Audit, Governance and Standards Committee who are also responsible for monitoring progress against the plan. Changes to the plan will be agreed with the Director of Finance (s151 officer) and will be notified to this committee. Proposed work is also discussed with the Council's external auditors to ensure there is no duplication of effort. We will provide regular updates on the scope and findings of our work to the Audit, Governance and Standards Committee throughout 2017/18.
- 6 The plan is based on a total number of 285 days for 2017/18 which is the same as in 2016/17.

2017/18 Internal Audit Plan

- 7 The plan has been structured in sections under the responsibilities of each Director of the Council plus the time allocated as client support, advice and follow up. Further information is included in **Appendix A**.

Internal Audit Plan 2017/18

Appendix A

Director of Finance (s151 officer)

Revenues and Benefits

Audit	Scope	Days
Housing Benefits	To review the key risks/controls involved in awarding and paying benefits including the Council Tax Support Scheme.	15
Council Tax and NNDR	A review of the key risks/controls for the setting and collection of local tax including income collection performance management arrangements.	10
		25

Corporate Finance

Audit	Scope	Days
Payroll	A review of the payroll system and key controls associated with payroll processing.	10
Creditors	To review the key risks/controls surrounding the payment of Creditors invoices.	10
Sundry Debtors	A review of the systems for raising debtor invoices and collecting income, credit control, and debt recovery arrangements.	10
Income and Receipting	To review the key risks/controls surrounding receipting and balancing of monies received. We will specifically review the key controls in place at Leisure Centres and Customer Services.	15
		45

Performance and Information Technology

Audit	Scope	Days
Risk Management	A review of the effectiveness of the Risk Management arrangements to highlight and robustly manage the key strategic risks of the Council.	10
Project Management	A review of the effectiveness of the current Project Management policies, procedures and processes in place at the Council.	15
ICT	A review of key ICT risks and controls. The specific area will be agreed with officers during the year.	15
		40

Projects

Audit	Scope	Days
Purchase to Pay	To provide support, guidance and challenge to the introduction of a 'Purchase to Pay' module to the creditors system.	10
Payment Card Industry Data Security Standards (PCI DSS)	To further review and support the arrangements the Council has in place to comply with the requirements of PCI DSS.	5
		15
		125

Director of Leisure and Environment

Audit	Scope	Days
Emergency Planning, Business Continuity and Disaster Recovery	To appraise the progress made in improving Business Continuity and ICT disaster recovery arrangements. Work will also review the contractual arrangements for Emergency Planning. We will also offer advice and assistance as/when required.	15
Pre employment checks	To help support, review and challenge the arrangements for pre-employment checks in Leisure Centres (and elsewhere if/as required) following the findings from the 2016/17 work.	20
Environmental Health	To support and review the continued management of key performance and operational risks within Environmental Health with specific focus on Food Inspection.	10
		45

Director of Law and Governance

Audit	Scope	Days
Procurement	A review of the operational effectiveness of the Council's corporate arrangements for procurement. We will also review the Council's arrangements against key risk areas highlighted in the December 2016 Home Office report in respect of the threat from Serious and Organised Crime to publicly procured services in Local Government.	15
Contract Management	A review of the management of a sample of contracts to ensure these were being managed in line with Council and best practice expectations	15
Licensing	To review the key risks and controls in place in respect of Licensing.	15
		45

Director of Economy and Planning

Audit	Scope	Days
Design and Maintenance	To consider the management of the key service, performance and operational risks of the Design and Maintenance function.	20
Development Management	To provide support and challenge to help improve the current ways of working on the IDOX system.	5
		25

Client Support, Advice and Follow up

Area	Days
Committee Preparation and Attendance	12
Audit Planning and Client Liaison	8
Follow up of previous years findings	8
Miscellaneous Advice	8
Financial Appraisals	5
Other (e.g. External Audit Liaison, Member and Officer Training)	4
	45
	285

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (Section 151 Officer)

Subject: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - REPORT
PROGRAMME 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to identify those reports which the Committee wishes to receive on a structured basis.
- 1.2 The Committee meets five times per year and with this in mind, and based upon the work of the Committee since its inception, Annex 'A' is a suggested programme of reports that the Committee could consider. This would not, of course, prevent the Committee from considering ad hoc reports on other matters within the terms of reference for the Committee.

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approval of this report. The report will ensure that the Committee receives reports in a timely manner on those issues that are key to the Committee's terms of reference. Approval of a programme of reports is considered as best practice and will enable the work of the Committee to be spread out over the next financial year in a structured way.
- 2.2 The risk of not approving the report is that issues of relevance are not brought to the Committee's attention in a timely manner.

3.0 RECOMMENDATIONS:

- 3.1 It is recommended that Members approve the Report Programme set out at Annex 'A'.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

Author ref: LB-W

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Direct Line No: (01609) 767024

REPORT PROGRAMME FOR
AUDIT, GOVERNANCE AND STANDARDS COMMITTEE 2017/18

JULY - 1ST QUARTER

1. RIPA Update
2. Annual Internal Audit Report 2016/17
3. Annual Governance Statement for 2016/17
4. Annual Report to Cabinet on the Committee's Activities for 2016/17
5. Annual Report on Counter Fraud and Anti-Corruption for 2016/17
6. Statutory Auditor – Quarterly Update
7. Annual Review of the Audit Vision and Charter
8. Politically Restricted Posts
9. Risk Register – Annual Report
10. Statement of Accounts for 2016/17
11. Statutory Auditor – Annual Audit Letter – Accounting and Internal Control Systems 2016/17

SEPTEMBER - “SPECIAL”

The September meeting has been scheduled but is unlikely to be required due to the Statement of Accounts being completed in a tighter timescale and being included in the July meeting.

OCTOBER - 2ND QUARTER

1. RIPA Update and Policy Amendment
2. Internal Audit Q1 Report 2017/18
3. Annual Review of Risk Management Strategy (Including a Review of the Process, the Policy Statement and the Risk Management Guidance Manual)
4. Annual Review of Audit and Governance Committee's Terms of Reference
5. Statutory Auditor – Quarterly Update

JANUARY - 3RD QUARTER

1. RIPA Update and Annual Review of Policy Statement
2. Statutory Auditor – Annual Audit & Inspection Letter 2016/17
3. Internal Audit Q2+ Report 2017/18
4. Statutory Auditor – Quarterly Update

MARCH - 4TH QUARTER

1. RIPA Update
2. Internal Audit Q3+ Report 2017/18
3. Statutory Auditor – Quarterly Update
4. Internal Audit Plan for 2018/19
5. Reporting Programme for 2018/19
6. Review of Annual Treasury Management Strategy 2018/19
7. Statutory Auditor – Annual Grant Claims and Returns 2016/17

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (S151 Officer)

Subject: **REVIEW OF ANNUAL TREASURY MANAGEMENT STRATEGY 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to give the Committee an opportunity to review the Council's Treasury Management Strategy for the forthcoming financial year 2017/18. The Treasury Management Strategy is influenced by the capital expenditure plans of the Council for 2017/18 and the next 10 years.
- 1.2 Following the collapse of the Icelandic banks in October 2008 and in accordance with the Audit Commission's recommendations in their subsequent report "Risk and Return – English local authorities and the Icelandic banks" it is a requirement that the Council's Annual Treasury Management Strategy should be subject to Member scrutiny and that the scrutiny be fulfilled by the Audit, Governance and Standards Committee. This scrutiny role is now within the Committee's terms of reference.
- 1.3 Attached at Appendix 'A' is the "2017/18 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators" report which was approved by Cabinet at its meeting on 7 February 2017.
- 1.4 Paragraph 4.3 of the Cabinet report summarises the proposed Treasury Management Strategy for 2017/8 as:-
 - The Council's Capital Financing Requirement and the potential need to borrow;
 - The minimum revenue provision policy is defined detaining the minimum revenue payments that are required to be;
 - The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
 - Investment of surplus funds can be made to other Local Authorities, nationalised Banks, Banks which are part of the UK banking system support package, as well as other UK Banks and Building Societies, subject to the application of Capita Asset Services' credit worthiness criteria;
 - Investments of surplus funds can be made in foreign Banks and institutions of AA sovereign rated countries subject to Capita Asset Services' credit worthiness criteria;
 - Limits for all investments to be placed with specified and non specified investments are:

Individual Limits – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are three exceptions to this policy:

- (a) with counterparties that are backed by the Government – Royal Bank of Scotland, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher.
- (b) With the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty, whichever is the higher
- (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

- 1.5 The Treasury Management Strategy Statement also refers to Member training, where Members with responsibility for scrutinising Treasury Management have the option to be provided with specific training. Training was given to Members in October 2016 providing them with an overview of Treasury Management in a Local Authority. Further training can be carried out by Council Officers and / or Capita Asset Services - the Council's Treasury Management advisors.

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approval of this report. The report will ensure that the Committee fulfils its terms of reference and more importantly scrutinises a key policy of the Council.
- 2.2 The risk of not approving the report is that the Council has an inappropriate Treasury Management Strategy and that funds may be put at risk or returns on investments are reduced.

3.0 RECOMMENDATION:

- 3.1 It is recommended that Members:-
 - (a) review the Council's Treasury Management Strategy for 2017/18 and make any appropriate recommendations to Cabinet; and
 - (b) consider treasury management training during 2017/18

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers:	None
Author ref:	LBW
Contact:	Louise Branford-White Director of Finance (S151 Officer) Direct Line No: (01609) 767024

Agenda Item 6

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 February 2017

Subject: 2017/18 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 This report considers the 10 year Capital Programme covering the financial years 2017/18 to 2026/27, the 2017/18 Capital Programme and the Treasury Management Strategy Statement; including the Annual Investment Strategy and Minimum Revenue Provision Policy Statement.
- 1.2 The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained the Council can also use borrowing to support the Capital programme. The Financial Strategy which supports the Capital Programme 2017/18 to 2026/27 is being approved at this February 2017 Cabinet.
- 1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3 year period. The 10 year Capital Programme 2017/18 to 2026/27 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.
- 1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2017/18 Capital Programme is detailed in this report.
- 1.5 The Treasury Management Strategy Statement includes the Annual Investment Strategy the Minimum Revenue Policy Statement and the Prudential and Treasury indicators. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.
- 1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.
- 1.7 This report seeks approval for
 - (a) the 10 year Capital Programme 2017/18 to 2026/27
 - (b) the Capital Programme for the coming financial year 2017/18, which is informed by the 10 year Capital Programme
 - (c) the Treasury Management Strategy Statement 2017/18
 - (d) the Minimum Revenue Policy Statement 2017/18
 - (e) the Prudential and Treasury Indicators 2017/18

2.0 10 YEAR CAPITAL PROGRAMME 2017/18 to 2026/27:

2.1 The 10 year Capital Programme 2017/18 to 2026/27 shows capital expenditure of £25,359,352, which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £28,710,558, which leaves a balance of funding of £3,351,206. £984,784 of this reserve funding balance is allocated for a revenue purpose to support Repairs & renewals of the Council's assets, ICT development and development of the economy this leaves £2,366,422 to be used on capital projects in future years. The Financial Strategy supports this 10 year Capital Programme which shows it is affordable, sustainable and prudent over the long term.

2.2 The 10 Year Capital Programme 2017/18 to 2026/27 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	1,076,000
Computer Fund	1,860,995
Capital Receipts Reserve	9,043,647
Economic Development Fund	3,378,710
Borrowing / Surplus Funds	<u>10,000,000</u>
	25,359,352

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3, A4, A5 and A6.

2.3 **Repairs and Renewals Fund** - Annex A1 details the funding available in the Repairs and Renewals Fund, together with a detailed estimate of the schemes that will utilise this funding over the next 10 years. This fund will be used to fund all repairs and renewals, including a proportion of those in the revenue budget. This practice will protect the repairs budget, from being used to fund other items of expenditure and eliminate excessive spending at the end of the year.

2.4 **Computer Fund** - Annex A2 details the funding available in the Computer Fund, together with an estimate of how this funding will be utilised over the next 10 years. No specific schemes are detailed through the 10 year strategy because it is envisaged that schemes will emerge from the review of all service areas on an ongoing basis which will provide the detail of the computer programme.

2.5 The Repairs and Renewals Fund and Computer Fund at the end of the 10 year Strategy will require additional funding to be allocated to continue necessary investment. This will be facilitated by income generation opportunities available to the Council and continued revenue efficiencies savings from existing budgets.

2.6 **Capital Receipts Reserve** - Annex A3 details the funding available in the Capital Receipts Reserve, together with an estimate of future receipts and the detailed schemes to be financed from the Reserve over the next 10 years. The Capital Receipts Reserve has sufficient balances to continue to fund capital expenditure beyond the 10 year Capital Programme.

2.7 **Economic Development Fund** – Annex A4 details the Economic Development Fund which was created in 2014/15 when £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014. Funding remaining to be allocated at quarter 3 2016/17 is £1,219,597.

2.8 **Borrowing / Surplus funds** – Borrowing or surplus funds can be used to support the Capital Programme in accordance with the Treasury Management Strategy Statement. Specifically, on 16 December 2014 Cabinet approved the loan to local Housing Association to assist the local area in increasing housing opportunities for the community and also on 7 July 2015 the loan to the Business Improvement District. Therefore, the Treasury Management Strategy Statement details the maximum amount of borrowing that can occur during 2017/18. There is still the flexibility that surplus funds could contribute to the funding of the loans and both these options will be considered in the light of the treasury management economic and interest rate environment.

2.9 In preparing the 10 year Capital Programme a number of schemes were put forward that were deemed not to be business critical at this time and therefore are not incorporated in the 10 year Capital Programme. These schemes will be reassessed in the future and incorporated into future capital programmes, if they become business critical.

3.0 **2017/18 CAPITAL PROGRAMME BUDGET:**

3.1 The Capital Programme 2017/18 totals £9,554,070 and is funded as follows:

	£
Repairs and Renewals Fund	110,000
Computer Fund	184,270
Capital Receipts Reserve	459,800
Borrowing / Surplus Funds	<u>8,800,000</u>
	9,554,070

3.2 The Capital Programme 2017/18 is attached at Annex 'B'. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes. In addition, where a scheme appears for a number of years, an estimation of the costs in future years is also given.

3.3 All schemes have been assessed to allow a considered and informed judgement to be made in respect of the Value for Money of each scheme. It is believed that each scheme does represent value for money. The reasons for this judgement are:-

- each scheme contributes towards the attainment of a particular Business Plan target and a number have clear community benefits;
- schemes can generate ongoing revenue savings;
- although the cost of each scheme is indicative, prior to implementation each scheme will follow the Council's procurement process to ensure best value is achieved;
- each scheme has a clear completion date.

3.4 A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Capital Monitoring Group, which is chaired by the Director of Finance.

3.5 The 10 year Capital Programme and the 2017/18 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

4.0 2017/18 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2017/18. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex 'C'. Specifically the Treasury Management Strategy:

- Sets out the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code, the CIPFA Treasury Management Code of Practice and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment Guidance;
- Identifies reporting arrangements and responsibilities;
- Clarifies the potential requirement to borrow;
- Clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;
- Identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;
- Calculates the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements.

4.2 Approval of the Treasury Management Strategy Statement is required by the Local Government Act and code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Capita Asset Services, in constructing this strategy.

4.3 The Treasury Management Strategy Statement for 2017/18 reflects the improved stability of the banking sector, as well as a more risk averse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2017/18 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow;
- The minimum revenue provision policy is defined determining the minimum revenue payments that are required;
- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
- Investment of surplus funds can be made to other Local Authorities, nationalised Banks, Banks which are part of the UK banking system support package, as well as other UK Banks and Building Societies, subject to the application of Capita Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign Banks and institutions of AA sovereign rated countries subject to Capita Asset Services' credit worthiness criteria;
- Limits for all investments to be placed with specified and non specified investments are:

Individual Limits – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are three exceptions to this policy:

- (a) with counterparties that are backed by the Government – Royal Bank of Scotland, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher;
- (b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty, whichever is the higher;
- (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

- 4.4 The Treasury Management Strategy Statement 2017/18 also includes the revised Treasury Management Policy Statement which is attached at Annex 'D' and is recommended to be approved by Cabinet and Council in accordance with the revised CIPFA Treasury Management Code of Practice 2011.
- 4.5 The Scheme of Delegation and the Role of the S151 Officer (Director of Finance), in relation to Treasury Management, details that those charged with governance are responsible for Treasury Management activities within the organisation, this is attached at Annex 'E' and is recommended to be approved by Cabinet and Council.
- 4.6 The Prudential and Treasury Management Indicators are detailed in the main body of the Treasury Management Strategy Statement attached at Annex 'C'. It is recommended that the Prudential and Treasury Management indicators are approved by Cabinet and Council.

5.0 LINK TO COUNCIL PRIORITIES:

- 5.1 This report links to the efficient use of Council resources, where the Capital Programme 2016/17 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

6.0 RISK ASSESSMENT:

- 6.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2017/18:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2017/18 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.

Risk	Implication	Prob	Imp	Total	Preventative action
Treasury management function is a high risk area due to the volume and level of large investment money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

7.0 FINANCIAL IMPLICATIONS:

7.1 The financial implications are contained within the body of the report.

8.0 LEGAL IMPLICATIONS:

8.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2017/18 and future years. This report provides detail of the Capital Programme 2017/18 and also includes the requirements for the Treasury Management Strategy Statement.

8.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 Some capital schemes have specific implications for Equalities. The equalities implications of the individual schemes will be assessed by individual departments once the Capital Programme 2017/18 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

10.0 RECOMMENDATIONS:

10.1 It is recommended that Cabinet approves and recommends to Council that:-

- 1) the 10 year Capital Programme 2017/18 to 2026/27 at £25,359,352 be approved, as detailed in paragraph 2.2 and attached at Annex 'A';
- 2) the Capital Programme 2017/18 at £9,554,070 detailed in Annex 'B' be approved for implementation;
- 3) the Treasury Management Strategy attached at Annex 'C' be approved;
- 4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex 'C' be approved;
- 5) the Prudential and Treasury Indicators attached at Annex 'C' in the body of the Treasury Management Strategy Statement be approved;

- 6) the revised Treasury Management Policy Statement at Annex 'D' be approved; and
- 7) the Scheme of Delegation and role of the S151 Officer attached at Annex 'E' be approved.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Capital Programme 2017/18

10 YEAR CAPITAL PLAN 2017/18 TO 2026/27

ANNEX A1

REPAIRS AND RENEWALS FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(2,439,767)	(2,060,767)	(947,767)	(795,767)	(683,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	
Add: Transfers to / (from) Taxpayers Reserve		1,000,000	0	0	(200,000)	0	0	0	0	0	
	(2,439,767)	(1,060,767)	(947,767)	(795,767)	(883,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	(1,639,767)
EXPENDITURE											
Repairs and Renewals - Revenue	239,000	22,000	22,000	26,000	26,000	26,000	30,000	30,000	30,000	30,000	481,000
Public lighting replacement	46,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	370,000
Air conditioning - Legislative requirement Leisure	20,000	0	0	0	0	0	0	0	0	0	20,000
CHP Unit at Bedale Leisure Centre											0
Purchase of bins and boxes for refuse and recycling	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Civic Centre- Carpet Replacement	0	0	0	0	0	10,000	0	0	0	0	10,000
Civic Centre- Internal Painting	0	5,000	0	0	5,000	0	0	0	0	0	10,000
Gym equipment refresh	24,000	0	24,000	0	24,000	0	24,000	0	0	0	96,000
Pool Tank Tiles Hambleton Leisure Centre	0	0	20,000	0	0	0	0	0	0	0	20,000
Car Parks - Reinstatements	0	0	0	0	0	50,000	0	0	0	0	50,000
TOTAL REPAIRS AND RENEWALS CAPITAL EXP	140,000	91,000	130,000	86,000	115,000	146,000	110,000	86,000	86,000	86,000	1,076,000
BALANCE ON REPAIRS & RENEWALS FUND	(2,060,767)	(947,767)	(795,767)	(683,767)	(742,767)	(570,767)	(430,767)	(314,767)	(198,767)	(82,767)	

10 YEAR CAPITAL PLAN 2017/18 TO 2026/27

ANNEX A2

COMPUTER FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(810,884)	(454,719)	(302,719)	(990,889)	(888,889)	(726,889)	(1,574,889)	(1,472,889)	(1,196,889)	(2,046,889)	
Add: Transfers from Council Taxpayers Reserve		0	(1,000,000)	0	0	(1,000,000)		0	(1,000,000)		
	(810,884)	(454,719)	(1,302,719)	(990,889)	(888,889)	(1,726,889)	(1,574,889)	(1,472,889)	(2,196,889)	(2,046,889)	(3,810,884)
EXPENDITURE											
ICT REVENUE COSTS	63,000	0	0	0	0	0	0	0	0	0	63,000
ICT Improvements - 2017/18	293,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,860,995
TOTAL ICT CAPITAL EXPENDITURE	356,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,923,995
BALANCE ON COMPUTER FUND	(454,719)	(302,719)	(990,889)	(888,889)	(726,889)	(1,574,889)	(1,472,889)	(1,196,889)	(2,046,889)	(1,886,889)	

CAPITAL RECIEPTS RESERVE	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(2,330,698)	(1,884,008)	(1,858,794)	(1,829,912)	(1,793,363)	(1,818,149)	(1,330,271)	(1,330,231)	(1,348,531)	(1,367,172)	
Add: Capital Receipts Estimated	(883,000)		0	0	0	0	0	0	0	0	
Add: Capital receipts - sale of bins	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
Add: Estimated Grants (DFG)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	
Add: Estimated Grants (s106)	(335,000)	0	0	0	0	0	0	0	0	0	
Add: Trsf from Council Tax payers Reserve	(1,875,000)	(500,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	
Add: Revenue contrn - One off Fund (Increasds Leisure Receipts)	(200,000)										
Add: External Funding for Bedale Leisure Centre Hoist	0	0	0	0	0	0	0	0	0	0	
Add: External Funding for Bedale Public Art	(44,500)	0	0	0	0	0	0	0	0	0	
Add: Revenue contributions for Kerbside bins	(65,957)	(66,286)	(66,618)	(66,951)	(67,286)	(67,622)	(67,960)	(68,300)	(68,641)	0	
Add: Revenue contributions for LED Public Lightning	(13,500)	(13,500)	(16,500)	(13,500)	(13,500)	(16,500)	0	0	0	0	
Total Estimated Capital Receipts	(5,857,655)	(2,573,794)	(2,351,912)	(2,320,363)	(2,284,149)	(2,312,271)	(1,808,231)	(1,808,531)	(1,827,172)	(1,777,172)	(10,360,819)
EXPENDITURE											
Disabled Facilities Grants	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	1,500,000
Purchase of bins for refuse and recycling - New Waste Strategy	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
Public lighting energy reductions	0	0	0	0	0	0	0	0	0	0	0
Public lighting LED Lights	0	0	0	0	0	0	0	0	0	0	0
Car Park Restatements	50,000	0	50,000	0	0	262,000	0	0	0	0	362,000
Bedale Gateway Car Park	530,380	0	0	0	0	0	0	0	0	0	530,380
Civic Centre- Window Replacements	0	0	0	0	0	0	10,000	0	0	0	10,000
Adoption of Roads - Leeming Bar	0	0	0	0	0	0	0	0	0	0	0
Adoptions - Electric Bollards - Thirsk & Northallerton	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Digital Transaction Software	0	0	0	0	0	0	0	0	0	0	0
Car Parks - P&D Machines Replacements	0	0	0	0	0	140,000	0	0	0	0	140,000
Bedale North End Cobbles	0	0	0	0	0	120,000	0	0	0	0	120,000
Hambleton Leisure Centre Wave Machine	30,000	0	0	0	0	0	0	0	0	0	30,000
Civic Centre - Access Card Reader System	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Toilet Refurbishments	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Disabled Access Doors and Ramp	0	0	0	0	0	0	0	0	0	0	0
ICT Server Room Civic Centre & Springboard	0	0	0	0	0	0	0	0	0	0	0
Bedale Cycle Scheme	392,035	0	0	0	0	0	0	0	0	0	392,035
District Council Boundary Signs	0	10,000	0	0	0	0	0	0	0	0	10,000
Central Depot - Additional Parking	0	0	0	0	0	0	0	0	0	0	0
Leisure Centre Automatic Doors	30,000	0	0	0	0	0	0	0	0	0	30,000
Waste and Street Scene - Telematics	12,050	0	0	0	0	0	0	0	0	0	12,050
Waste and Street Scene - Training Room	0	0	0	0	0	0	0	0	0	0	0
Hambleton Leisure Centre Improvement Scheme	1,950,005	100,000	0	0	0	0	0	0	0	0	2,050,005
Hambleton All Weather Pitch Refurbishment	0	0	0	0	0	0	0	0	0	0	0
Hambleton Leisure Centre - Fire Alarm System	15,217	0	0	0	0	0	0	0	0	0	15,217
Hambleton Leisure Centre - External Render	8,000	0	0	0	6,000	0	0	0	0	0	14,000
Hambleton Leisure Centre - Pool Balustrades	15,000	0	0	0	0	0	0	0	0	0	15,000
Hambleton Leisure Centre- Pool Changing Village	175,000	0	0	0	0	0	0	0	0	0	175,000
Bedale Leisure Centre - Improvement Scheme	0	0	0	0	0	0	0	0	0	0	0
Stokesley Leisure Centre improvement scheme	0	0	0	0	0	0	0	0	0	0	0
Forum - Capital Repairs	41,300	0	0	24,000	0	0	0	0	0	0	65,300
CCTV Camera Replacement Programme	5,360	0	0	0	0	0	0	0	0	0	5,360
Workspaces Air Con Refurbishments	0	0	6,000	0	0	0	0	0	0	0	6,000
Car Park Creation Leeming Bar LBFEC	0	0	0	0	0	0	0	0	0	0	0
Hambleton LC - Cold Water storage Tank	8,000	0	0	0	0	0	0	0	0	0	8,000
Stokesley LC - Corridor to viewing area, underfloor pipework	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Health and safety aspects	18,000	0	0	0	0	0	0	0	0	0	18,000
Workspaces - Roller Shutter Doors	0	0	0	8,000	0	0	8,000	0	0	0	16,000
Workspace - Lift Works (LOLER)	0	0	6,000	0	0	0	0	0	0	0	6,000
Central and Stokesley Depot - Welfare Facilities improvements	0	0	0	0	0	0	0	0	0	0	0
Central Depot - HGV Full Roof Replacement	0	45,000	0	0	0	0	0	0	0	0	45,000
Civic Centre: Replace Computer Room 1&2 Air conditioning unit	0	0	0	0	0	0	0	0	0	0	0
Civic Centre: UPS and Fire Suppression replacement scheme	0	0	0	0	0	0	0	0	0	0	0
Central Depot - Access Road resurfacing	0	0	0	35,000	0	0	0	0	0	0	35,000
Car Parks - upgrading Pay & Display Machines	0	0	0	0	0	0	0	0	0	0	0
Hambleton LC - Sauna replacement	12,000	0	0	0	0	0	0	0	0	0	12,000
Stokesley LC - Sauna replacement	0	0	0	0	0	0	0	0	0	0	0
Thirsk All Weather Pitch - Refurbishment of showers	0	0	0	0	0	0	0	0	0	0	0

HLC - Rebound boards (linked to floor being done)	18,000	0	0	0	0	0	0	0	0	0	18,000
HLC - Sports hall sprung floor	60,000	0	0	0	0	0	0	0	0	0	60,000
Civic Centre - Food Lab	0	0	0	0	0	0	0	0	0	0	0
Springboard Car Park - Resurface with Tarmac	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Double Glazed window replacement scheme	12,000	0	0	0	0	0	0	0	0	0	12,000
Hambleton LC - Air handling energy saving rotor replacement	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Refurbishment of kitchenettes	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Dormers	20,000	0	0	0	0	0	0	0	0	0	20,000
Civic Centre - External Woodwork replacement scheme Stairwells	10,000	0	0	0	0	0	0	0	0	0	10,000
Stokesley LC - re-design of reception area	15,000	0	0	0	0	0	0	0	0	0	15,000
Civic Centre Toilets Part 2	32,000	0	0	0	0	0	0	0	0	0	32,000
Stokesley LC - Menerga Air Handling Unit	0	0	0	0	0	0	0	0	0	0	0
St Marys Closed Churchyard - Boundary Wall repairs	10,000	0	0	0	0	0	0	0	0	0	10,000
Bedale Sweeper Shed	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - sub circuit distribution	0	0	0	0	0	0	0	0	0	0	0
Workspaces Air Con Refurbishments	0	0	0	0	0	0	0	0	0	0	0
Sandbag Storage Scheme	0	0	0	0	0	0	0	0	0	0	0
Bedale Leisure Centre Hoist	0	0	0	0	0	0	0	0	0	0	0
PC Screens - Planning	0	0	0	0	0	0	0	0	0	0	0
Bid Software - Northgate	0	0	0	0	0	0	0	0	0	0	0
Bedale Public Art	44,500										44,500
Depot - Roller Shutter Doors											0
HLC - Main Office Heating & Ventilation	9,000	0	0	0	0	0	0	0	0	0	9,000
HLC - External Glazing	8,000	0	0	0	0	0	0	0	0	0	8,000
SLC - Air Handling Unit	12,000	0	0	0	0	0	0	0	0	0	12,000
SLC - Trend Control Systems	6,800	0	0	0	0	0	0	0	0	0	6,800
BLC - Trend Control Systems	6,000	0	0	0	0	0	0	0	0	0	6,000
TLC - Stoarge (Plant Room)	8,000	0	0	0	0	0	0	0	0	0	8,000
BLC - Gas Boiler Refurbishment	24,000										24,000
LED Lantern Replacement Scheme	42,500	0	0	0	0	0	0	0	0	0	42,500
HLC - Sports Hall Lighting	10,000	0	0	0	0	0	0	0	0	0	10,000
Northallerton Depot Fire Alarm System	7,500	0	0	0	0	0	0	0	0	0	7,500
Northallerton Depot External Works	8,000	0	0	0	0	0	0	0	0	0	8,000
Workspace Investment Scheme	158,000	0	0	0	0	0	0	0	0	0	158,000
ADDITIONAL SCHEMES	0	400,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	2,800,000
TOTAL CAPITAL RECEIPTS EXPENDITURE	3,973,647	715,000	522,000	527,000	466,000	982,000	478,000	460,000	460,000	460,000	9,043,647
BALANCE ON Capital receipts reserve	(1,884,008)	(1,858,794)	(1,829,912)	(1,793,363)	(1,818,149)	(1,330,271)	(1,330,231)	(1,348,531)	(1,367,172)	(1,317,172)	(1,317,172)

ECONOMIC DEVELOPMENT FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(1,889,088)	(1,052,241)	(760,784)	(499,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	
Add: Estimated Capital Receipts from sale of prison site				(2,200,000)							
Add: Estimated returned of borrowed funds from the BID	(10,000)	0	0	0	0						
	(1,899,088)	(1,052,241)	(760,784)	(2,699,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	(4,099,088)
EXPENDITURE											
Economic Development Revenue Expenditure	368,037	51,357	21,390	0	0						440,784
Economic Development Capital Expenditure	478,810	240,100	240,100	680,100	679,600	440,000	420,000	200,000			3,378,710
TOTAL ECONOMIC DEVELOPMENT FUND EXPENDITURE	846,847	291,457	261,490	680,100	679,600	440,000	420,000	200,000	0	0	3,819,494
BALANCE ON ECONOMIC DEVELOPMENT FUND	(1,052,241)	(760,784)	(499,294)	(2,019,194)	(1,339,594)	(899,594)	(479,594)	(279,594)	(279,594)	(279,594)	(279,594)

BORROWING / SURPLUS FUNDS	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Add: Borrowing / Surplus Funds	(8,800,000)	0	0	0	0	0	0	0	0	0	(8,800,000)
Add: Borrowing / Surplus Funds	0	0	0	0	0	0	0	0	0	0	0
EXPENDITURE											
Loan to Housing Association	8,800,000	0	0	0	0	0	0	0	0	0	8,800,000
BID Project	1,200,000	0	0	0	0	0	0	0	0	0	1,200,000
BALANCE ON BORROWING / SURPLUS FUNDS	1,200,000	0	0	0	0	0	0	0	0	0	1,200,000

TOTAL CAPITAL PROGRAMME	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
	£	£	£	£	£	£	£	£	£	£	
REPAIRS AND RENEWALS FUND	140,000	91,000	130,000	86,000	115,000	146,000	110,000	86,000	86,000	86,000	1,076,000
COMPUTER FUND	293,165	152,000	311,830	102,000	162,000	152,000	102,000	276,000	150,000	160,000	1,860,995
CAPITAL RECIEPTS RESERVE	3,973,647	715,000	522,000	527,000	466,000	982,000	478,000	460,000	460,000	460,000	9,043,647
ECONOMIC DEVELOPMENT FUND	478,810	240,100	240,100	680,100	679,600	440,000	420,000	200,000	0	0	3,378,710
BORROWING SURPLUS FUNDS	10,000,000	0	0	0	0	0	0	0	0	0	10,000,000
BALANCE ON BORROWING / SURPLUS FUNDS	14,885,622	1,198,100	1,203,930	1,395,100	1,422,600	1,720,000	1,110,000	1,022,000	696,000	706,000	25,359,352

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Phillips MJ	Leisure & Environment Purchase of bins and boxes for refuse and recycling	50,000		50,000	Ongoing
Cllr Fortune PS	Gym Equipment Refresh	24,000		24,000	Mar-18
Cllr Knapton JI	Economy, Planning & Housing Public lighting replacement	36,000		36,000	Mar-18
Repairs & Renewals Fund Capital Programme 2017/18		110,000	0	110,000	

Cabinet Member/ Responsible Officer	Computer Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Knapton JI	Finance & Resources ICT Improvements	184,270	0	184,270	Mar-18
Computer Fund Capital Programme 2017/18		184,270	0	184,270	

Cabinet Member/ Responsible Officer	Capital Fund				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Fortune PS	Leisure & Environment Hambleton Leisure Centre - Main Office Heating & Ventilation	9,000		9,000	Jul-17
PS	Hambleton Leisure Centre - External Glazing	8,000		8,000	Sep-17
PS	Hambleton Leisure Centre - Sports Hall Lighting	10,000		10,000	Dec-17
PS	Stokesley Leisure Centre - Air Handling Unit	12,000		12,000	Oct-17
PS	Stokesley Leisure Centre - Trend Control Systems	6,800		6,800	Oct-17
PS	Bedale Leisure Centre - Trend Control Systems	6,000		6,000	Oct-17
PS	Bedale Leisure Centre - Gas Boiler Refurbishment	24,000		24,000	Oct-17
PS	Thirsk Leisure Centre - Storage (Plant Room)	8,000		8,000	Mar-18
Cllr Phillips MJ	Purchase of bins and boxes for refuse and recycling	10,000	10,000	0	Ongoing
MJ	Northallerton Depot Fire Alarm System	7,500		7,500	Jun-17
MJ	Northallerton Depot External Works	8,000		8,000	Oct-17
Cllr Phillips MJ	Economy, Planning & Housing Disabled Facilities Grant	150,000	100,000	50,000	Mar-18
Cllr Fortune PS	Evolution Car Park Extension	158,000		158,000	Mar-18
Cllr Knapton JI	LED Lantern Replacement Scheme	42,500		42,500	Mar-19
Capital Fund Capital Programme 2017/18		459,800	110,000	349,800	

Cabinet Member/ Responsible Officer	Borrowing / Surplus Funds				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Knapton JI	Finance & Resources Loan to Housing Association	8,800,000		8,800,000	Mar-19
Borrowing / Surplus Funds Programme 2017/18		8,800,000	0	8,800,000	

Cabinet Member/ Responsible Officer	Total Capital Programme 2017/18				Estimated completion date
		Capital Expenditure 2017/18 Only £	Third Party Contribution £	Cost to the Council £	
Cllr Phillips	Leisure & Environment	183,300	10,000	173,300	
Cllr Fortune	Economy, Planning & Housing	386,500	100,000	286,500	
Cllr Knapton	Finance & Resources	8,984,270	0	8,984,270	
Total Capital Programme 2016/17		9,554,070	110,000	9,444,070	

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TREASURY MANAGEMENT STRATEGY STATEMENT -
MINIMUM REVENUE POSITION STRATEGY and
ANNUAL INVESTMENT STRATEGY 2017/18

1.0 INTRODUCTION:

1.1 Background

- 1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first part of the Treasury Management operation 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.
- 1.1.2 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.
- 1.1.3 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. ”

1.2 Reporting Requirements

- 1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. In addition quarterly review reports provide a regular update to cabinet.

Prudential and Treasury Indicators and Treasury Strategy (This report)

- 1.2.2 The first, and most important report covers:
- the capital plans (including prudential indicators);
 - a Minimum Revenue Provision Policy (MRP) (how residual capital expenditure is charged to revenue over time);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report

- 1.2.3 This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, this Council will receive quarterly update reports.

An Annual Treasury Report

- 1.2.4 This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

- 1.2.5 The above reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by Audit, Governance and Standards Committee.

1.3 Treasury Management Strategy for 2017/18

- 1.3.1 The strategy for 2017/18 covers two main areas:

(a) Capital Issues

- the capital plans and the prudential indicators
- the Minimum Revenue Provision (MRP) policy

(b) Treasury Management Issues

- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- credit worthiness policy
- policy on use of external service providers
- Member training

- 1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the Communities, Local Government Minimum Revenue Provision Guidance and Communities, Local Government Investment guidance.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20:

- 2.1 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 Members overview and confirm their understanding of the Capital Programme.

Capital Expenditure

- 2.2 This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

Capital Expenditure	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	13,951,716	19,187,330	14,885,622	1,198,100	1,203,930

- 2.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as Private Finance Initiatives and leasing arrangements which already include borrowing instruments. The Council has no Private Finance Initiatives or leases.

- 2.4 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 borrowing need. In 2017/18, borrowing may occur to support the Capital programme, mainly due to the loan to the local Housing Association.

Capital Expenditure £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	13,951,716	19,187,330	14,885,622	1,198,100	1,203,930
Financed by:					
Capital receipts	1,688,505	999,445	1,939,690	35,214	38,882
Capital grants	318,265	392,539	479,500	100,000	100,000
Capital reserves	1,944,946	1,529,717	3,946,875	743,000	741,830
Revenue	0	65,629	79,457	79,786	83,118
Net financing need for the year	10,000,000	17,400,000	8,800,000	0	0

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

- 2.5 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 above, which has not immediately been paid for, will increase the CFR.
- 2.6 The CFR does not increase indefinitely as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.
- 2.7 For the past few years, the CFR has remained at zero as the Council has been debt free and has had no underlying borrowing requirement. In 2016/17, due to the loan to the local Housing Association and the loan to the Business Improvement District, the CFR is required as this is a prudent approach to the need to borrow. This also provides the Council with the flexibility to use borrowing to support the capital programme if it chooses to do so but still allows the use of surplus funds. If external borrowing is taken, consideration will be given to the Treasury Management environment to ensure that the best option is achieved in relation to interest rates in the short and long term.
- 2.8 The CFR also includes any other long term liabilities (e.g. Private Finance Initiative schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such Private Finance Initiative schemes or Finance Leases.
- 2.9 The Council is asked to approve the CFR projections below:-

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – non housing	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
CFR - housing	0	0	0	0	
Total CFR	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
Movement in CFR	10,000,000	17,400,000	8,800,000	0	0

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Net financing need for the year (above)	10,000,000	17,400,000	8,800,000	0	0
Less MRP and other financing movements	0	0	0	0	0
Movement in CFR	10,000,000	17,400,000	8,800,000	0	0

Minimum Revenue provision (MRP) Policy Statement

- 2.10 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement) through a revenue charge known as the Minimum Revenue Provision – MRP. The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision - VRP.
- 2.11 This Council in 2017/8 will have a Capital Financing Requirement of £36,200,000 to support the total capital programme, however borrowing is only likely to occur where insufficient surplus funds are available.
- 2.12 Communities of Local Government (CLG) Regulations have been issued which require the Full Council to approve a **Minimum Revenue Provision (MRP) Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement:
- 2.13 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:
- **Based on CFR** – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.
- 2.14 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:
- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.
- 2.15 Repayments included in annual Private Finance Initiative scheme or finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2017/18 or in the foreseeable future.
- 2.16 The Capital Financing Requirement for the loan to the local Housing Association will be a maximum of £35,000,000 in 2017/18 and future years. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement. Therefore, if a total of £35,000,000 is loaned to the local Housing Association by the end of 2017/18, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2020/21 and at regular intervals thereafter. The Capital Financing Requirement for the Business Improvement District will be a maximum of £1,200,000, making the total £36,200,000, as with the loan to the Local Housing Association, the loan to the Business Improvement District of £1,200,000 also sets

aside receipts received to repay the borrowing that has been incurred on an annual basis for the next 5 years.

Core funds and expected investment balances

- 2.17 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances. Working capital balances (Debtors and Creditors) shown in the table are estimated for year end; these may fluctuate during the year. In 2017/18, 2018/19 and 2019/20 it should be noted that if the Council does not borrow £35,000,000 to fund the local Housing Association loan and instead uses its own core fund resources, then the 'Expected Investments' balances in the table below would be lower. The Council will run its cash close to zero, therefore reducing its external borrowing costs.

Year End Resources £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	14,329,041	11,744,311	7,633,641	7,523,118	7,944,387
Capital receipts	2,438,256	2,665,698	1,884,008	1,858,794	1,829,912
Provisions	-	-	-	-	-
Other	2,977,703	2,789,991	1,992,351	1,998,088	2,195,701
Total core funds	19,745,000	17,200,000	11,510,000	11,380,000	11,970,000
Under/(over) borrowing	10,000,000	17,200,000	11,510,000	11,380,000	11,970,000
Expected investments	9,745,000	-	-	-	-

Affordability Prudential Indicators

- 2.18 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:
- 2.19 **Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	0	0	0	0	0

- 2.20 The estimates of financing costs include current commitments and the proposals in this report. The table shows that there is no ratio between the capital cost and net revenue stream because the borrowing which will potentially be undertaken is for the loan to the local Housing Association. Ultimately this will not be a cost to the Council as the agreement between the Council and the local Housing Association will cover the costs incurred.
- 2.21 **Incremental impact of capital investment decisions on Council Tax.** This indicator identifies the revenue costs associated with proposed changes to the three year 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.

2.22 Incremental impact of capital investment decisions on the Band D Council Tax

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	£0.00	£0.00	£0.00	£0.00	£0.00

- 2.23 The table indicates no revenue costs associated with capital investment decisions because it is not anticipated that any borrowing will be taken and surplus funds will be used to support expenditure. The potential borrowing that will occur will be not direct cost to the council as the agreement between the Council and the local Housing Association will cover the costs incurred.

3.0 **BORROWING:**

- 3.1 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 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.

3.2 **Current Portfolio Position**

- 3.2.1 The Council's treasury portfolio position at 31 March 2016 with forward projections are summarised below. The table shows the actual external debt (the Treasury Management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. At the end of 2015/16 the Council was debt free. In 2016/17 borrowing is estimated to occur to support the capital programme as described in section 2 above. The estimated position for 2017/18 and future years is also reflected in the table below:

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	0	0	10,200,000	24,690,000	24,820,000
Expected change in Debt	0	10,200,000	14,490,000	130,000	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual debt at 31 March	0	10,200,000	24,690,000	24,820,000	24,820,000
The Capital Financing Requirement	10,000,000	27,400,000	36,200,000	36,200,000	36,200,000
Under / (over) borrowing	10,000,000	17,200,000	11,510,000	11,380,000	11,380,000

Total investments at 31 March					
Investments	9,745,000	0	0	0	0
Investment change	0	-9,745,000	0	0	0

Net Debt / (Net Investment)	-9,745,000	9,745,000	0	0	0
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3.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.2.3 The Director of Finance (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year 2016/17 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 Treasury Indicators: Limits to Borrowing Activity

3.3.1 **The Operational Boundary.** This is the limit beyond which external debt 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 debt. Prior to 2016/17, the Council was debt free and had no borrowing, however, to give the Council complete flexibility these limits are always set at the beginning of each financial year.

Operational boundary	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	6,200,000	39,000,000	39,000,000	39,000,000
Other long term liabilities	0	600,000	600,000	600,000
Total	6,200,000	39,600,000	39,600,000	39,600,000

3.3.2 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. 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 never yet been exercised.
2. The Council is asked to approve the following Authorised Limit. This limit is set to give the Council complete flexibility and also to encompass the maximum amount of borrowing that could occur for the capital programme:

Authorised limit £000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	40,000,000	40,000,000	40,000,000	40,000,000
Other long term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Total	41,000,000	41,000,000	41,000,000	41,000,000

3.4 Prospects for Interest Rates

- 3.4.1 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 Capita Asset Services central interest rate view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2016	0.25	1.60	2.90	2.70
Mar 2017	0.25	1.60	2.90	2.70
Jun 2017	0.25	1.60	2.90	2.70
Sep 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
Mar 2018	0.25	1.70	3.00	2.80
Jun 2018	0.25	1.70	3.00	2.80
Sep 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
Mar 2019	0.25	1.80	3.20	3.00
Jun 2019	0.50	1.90	3.20	3.00
Sep 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
Mar 2020	0.75	2.00	3.40	3.20

- 3.4.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
- 3.4.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 3.4.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a

rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

- 3.4.5 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of the Federal funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.5 Borrowing Strategy

- 3.5.1 The Council in 2015/16 the Council was debt free, however in 2016/17 it is likely that borrowing will occur in relation to the capital programme, specifically the loan to the local housing association and the loan to the Business Improvement District. The maximum amount of borrowing as stated above in section 2 in line with the Capital financing requirement is £35,000,000. Alternatively, the Council may choose to use some of its surplus funds rather than borrow if this occurred the Council would be maintaining an under-borrowed position. This means that the capital borrowing needed (the Capital Financing Requirement), will not be fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow will be used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
- 3.5.2 If the Council does undertake borrowing then interest rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Governments Public Works Loans Board. For 2017/18 interest rates span between 5 years at 1.70%, 25 at 3.0% or 50 years at 2.80%. The interest rates trend is to increase slightly across all years as the 2017/18 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2017/18 is set at 3.0%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.

3.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Director of Finance 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase 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.*

Any decisions will be reported to the appropriate to Cabinet at the next available opportunity.

Treasury Management Limits on Activity

3.5.3 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 in place to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

3.5.3 The Council is asked to approve the following treasury indicators and limits in the table below. These limits take into account the potential borrowing to support the capital programme as previously described in section 2 above and also provide the flexibility for additional borrowing when overnight temporary borrowing needs to occur. It should be noted that at this stage options have been left open when borrowing will occur due to the current volatility in the market.

	2016/17	2017/18	2018/19
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	107	104	105
Limits on variable interest rates based on net debt	-7	-4	-5
Limits on Fixed Interest Rates:			
• Debt only	100%	100%	100%
• Investments Only	90%	90%	90%

Limits on Variable Interest Rates			
• Debt only	10%	10%	10%
• Investments Only	50%	50%	50%
Maturity Structure of interest rate borrowing 2014/15			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years to 20 years	0%	100%	
20 years to 30 years	0%	100%	
30 years to 40 years	0%	20%	
40 years to 50 years	0%	20%	

3.6 Policy on Borrowing in Advance of Need

- 3.6.1 It is not anticipated therefore that there will be a need to borrow in advance of need during 2017/18. If the Council does borrow in advance of need it 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.
- 3.6.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the quarterly, mid-year or annual reporting mechanism.

3.7 Debt Rescheduling

- 3.7.1 It is not anticipated that in 2017/18 that debt rescheduling will occur. However, in order to cover all possibilities in the Treasury Management Strategy Statement it should be noted that short term borrowing rates will be considerably cheaper than longer term fixed interest rates, therefore, 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).
- 3.7.2 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).
- 3.7.3 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.
- 3.7.4 All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

3.8 Municipal Bond Agency

- 3.8.1 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities sometime in the future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority could therefore potentially make use of this new source of borrowing as and when appropriate to fund all or part of the borrowing required for the two previously mentioned schemes.

3.9 Annual Investment Strategy

3.9.1 Investment Policy –

- 3.9.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

- 3.9.10 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term Ratings.

- 3.9.11 Ratings will not be the sole determinant of the quality of an institution; 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.

- 3.9.12 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.

- 3.9.13 Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

- 3.9.15 With regards to counterparty limits and the amount of surplus funds to be placed with any one counterparty or group of counterparties, specific advice has been taken from the Council's Treasury Management Advisors (Capital Asset Services) due to the difficulty in placing surplus funds in the current economic environment. Therefore the Counterparty limits are detailed as follows:

- **Individual Limits** – These limits will be set at 30% of total investments or £3.0m per counterparty whichever is the higher. There are three exceptions to this policy:
 - (a) with counterparties that are backed by the Government – Royal Bank of Scotland, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher.
 - (b) with the Council's own bank - Lloyds - and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty whichever is the higher
 - (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

It should be noted that it is expected during 2017/18, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

- **Group Limits** – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

3.10 Creditworthiness policy

3.10.1 This Council applies the creditworthiness service provided by Capita Asset Services – the Council's Treasury Management Advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

3.10.2 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

3.10.3 The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings and using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

3.10.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

- 3.10.5 All credit ratings will be monitored weekly. 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 spreads against the iTraxx benchmark and other market data on a weekly basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 3.10.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

3.11 Country Limits

- 3.11.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent), other than the UK where the Council has set no limit. The list of countries that qualify using this AAA credit criteria, as at the date of this report, are shown in Annex C2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- 3.11.2 The UK sovereign rating is currently AA and following advice from Capita Asset Services, the Council's Treasury Management Advisors, and the Council will still operate with UK counterparties.
- 3.11.3 The Council has determined that, other than the United Kingdom where no limit will apply, a maximum of 30% of total investments or £3.0m whichever is the lower will be invested in a single institution of a AAA sovereign rated country
- 3.11.4 In addition, this policy restricts the total of investments in foreign countries to 40% of the total investments.

3.12 Investment Strategy

- 3.12.1 **In-house funds.** Investments will 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).
- 3.12.2 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.25% until Quarter 2 2019 and not rise above 0.75% by Quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:
- 2016/2017 0.25%
 - 2017/2018 0.25%
 - 2018/2019 0.25%
 - 2019/2020 0.50%
- 3.12.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next seven years are as follows:
- 2016/17 0.25%
 - 2017/18 0.25%
 - 2018/19 0.25%

- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%
- 2023/24 1.75%
- Later years 2.75%

3.12.4 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace

3.12.5 **Investment Treasury Indicator and Limit** - 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.

3.12.6 The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£000	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£1,000,000	£1,000,000	£1,000,000

3.12.7 For its cash flow generated balances, the Council will seek to utilise its Business Reserve Instant Access and Notice accounts, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

3.13 **Investment Risk Benchmarking** – The Council is a member of Capital Asset Services Treasury Management Benchmarking Club to assist in the measuring of Treasury Management performance which enables comparison with other Council's for risk and return.

3.14 **End of year investment report** - At the end of the 2017/18 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.1 **Policy on the Use of External Service Providers** – the Council uses Capital Asset services as its external Treasury Management advisors. The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It is also recognised 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.

4.2 **Member Training** – Members with responsibility for Treasury Management will be provided with training in Treasury management. This especially applies to Members responsible for scrutiny. During 2016/17 Audit, Governance & Standards Committee received training providing an overview of treasury management following their meeting in October 2016. Training can be carried out by Council Officers and / or Capita Asset Services - the Council's Treasury Management advisors. The training needs of Treasury Management officers are also periodically reviewed.

TREASURY MANAGEMENT PRACTICE – TMP1
CREDIT AND COUNTERPARTY RISK MANAGEMENT
- SPECIFIED AND NON-SPECIFIED INVESTMENTS AND LIMITS

1.0 SPECIFIED INVESTMENTS:

- 1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

2.0 NON-SPECIFIED INVESTMENTS:

- 2.1 These are any investments which do not meet the Specified Investment criteria. A maximum of 80% will be held in aggregate in non-specified investment

3.0 INVESTMENT INSTRUMENTS:

- 3.1 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.
- 3.2 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

A) – SPECIFIED

<i>Institution / Counterparty</i>	<i>Minimum 'High' Credit Criteria</i>	<i>Use</i>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Coded: Orange on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house
UK Part nationalised banks	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers

Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Capital Asset Services' Matrix. Fitch's rating: Long-term AAA, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Collateralised deposit	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
Certificates of deposits issued by banks and building societies	F Coded: Orange on Capital Asset Services' Matrix / Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA or equivalent rating from Standard& Poors and Moodys	In-house and Fund Mangers
UK Government Gilts	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Coded: Orange on Capital Asset Services' Matrix / Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK Government	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK Government)	Coded: Orange on Capital Asset Services' Matrix / Sovereign rating	In-house buy and hold and Fund Managers
Treasury Bills	Coded: Orange on Capital Asset Services' Matrix / UK Sovereign rating	Fund Managers

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
2. Money Market Funds	Short-term F1, Long-term AAA	In-house and Fund Managers
3. Enhanced cash funds	Short-term F1, Long-term AAA	In-house and Fund Managers
4. Bond Funds	Long-term AAA	In-house and Fund Managers
5. Gilt Funds	Long-term AAA	In-house and Fund Managers
6. Property Funds	Long-term AAA	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	100%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house buy and hold and Fund Managers	30%	1 Year

Commercial paper issuance covered by a specific UK Government explicit guarantee	UK Sovereign rating	In-house and Fund Managers	30%	1 Year
Commercial paper other	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	30%	1 Year
Corporate Bonds	Coded: orange (1yr) red (6mths) and green (3mths) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	1 Year
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house and Fund Managers	30%	1 Year
Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Property fund: the use of these investments would constitute capital expenditure	--	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure

2. Maturities in excess of 1 year

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	30%	> 1 year
Term deposits – banks and building societies	Coded: Purple (2yrs)) on Capital Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house	30%	> 1 year
Certificates of deposits issued by banks and building societies covered by UK explicit Government guarantee	UK Sovereign	In house and Fund Managers	30%	> 1 year
Certificates of deposits issued by banks and building societies	Coded: Purple(2yrs) on Capital Asset Services' Matrix / Short-term F1+, Long-term AA-	In house and Fund Managers	30%	> 1 year
UK Government Gilts	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year
Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	30%	> 1 year
Sovereign bond issues (i.e. other than the UK Government)	Long term AAA	In-house and Fund Managers	30%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Enhanced Cash Money Market Funds (Credit score of 1.25)	Coded: Dark Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year

2. Enhanced Cash Money Market Funds (Credit score of 1.5)	Coded: Light Pink (5yrs) on Capital Asset Services' Matrix Short-term F1, Long-term AAA Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	> 1 year
3. Bond Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year
4. Gilt Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 16 December 2016

Capita Asset Services has advised that Councils should only use approved counterparties from countries with a minimum sovereign credit rating determined by the Council. This Council has determined that it will only use those countries with the sovereign rating of AAA other than the UK where the Council has set no limit. This list will be monitored at least weekly (and for information purposes only, includes other sovereign ratings)

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qata
- UK

AA-

- Belgium

**THE TREASURY MANAGEMENT POLICY STATEMENT & CLAUSES TO BE FORMALLY
ADOPTED**

Clauses to be formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
 - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its Treasury Management activities;
 - suitable Treasury Management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. Full Council) will receive reports on its Treasury Management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance (S151 Officer), who will act in accordance with the organisation's policy statement and TMPs.
4. This organisation nominates Audit, Governance and Standards Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

The Treasury Management Policy Statement

This organisation defines its Treasury Management activities as:

1. The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices (recommendations to Council)
- budget consideration and approval (recommendations to Council)
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- receiving annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities

(iii) Audit, Governance and Standards Committee

- reviewing and scrutinising the treasury management policy and procedures and making recommendations to Cabinet.
- receiving and scrutinising annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities

(iv) Director of Finance (Section 151 Officer)

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the Council to the Director of Finance who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance

Subject: **STATUTORY AUDITOR – ANNUAL GRANT CLAIMS AND RETURNS 2015/16**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to present to Members the statutory auditor's Certification of Claims Annual Report for 2015/16 which is attached at Annex 'A'.
- 1.2 The Report summarises the work which the Council's statutory auditors have undertaken in certifying the Council's major grant claims and returns in relation to the financial year 2015/16. In this year only one item has required certification, being the housing benefit subsidy claim.

2.0 RISK ANALYSIS:

- 2.1 There are no risks associated with consideration of this report. However, if this report was not considered the Committee would not be fulfilling its terms of reference and would not have the opportunity of commenting on the statutory auditor's work in respect of the grant claim for 2015/16.

3.0 RECOMMENDATION:

- 3.1 It is recommended that Members receive the statutory auditor's Certification of Claims and Returns 2015/16 Annual Report.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 Officer)

Background papers: None

Author ref: LBW

Contact: Louise Branford-White
Director of Finance (Section 151 Officer)
Direct Line No: 767024

Certification of claims annual report 2015/16

Hambleton District Council

February 2017

Ernst & Young LLP



Building a better
working world

Members of the Audit, Governance and Standards Committee
Hambleton District Council
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Northallerton
DL6 2UU

February 2017

Direct line: + 44 191 269 4887
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Dear Members

Certification of claims annual report 2015/16 Hambleton District Council

This report summarises the results of our work on Hambleton District Council's 2015/16 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Limited ("PSAA") by the Secretary of State for Communities and Local Government.

For 2015/16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this, we followed a methodology determined by the Department for Work and Pensions ("DWP") and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015/16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £18,371,338. We met the submission deadline. A qualification letter was issued which detailed the qualification matters as set out in section 1. Our certification work found errors which the Council did not choose to amend.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2015/16 were published by PSAA in March 2015 and are available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit, Governance and Standards Committee on 21 March 2017.

Yours faithfully

Nicola Wright
Executive Director
Ernst & Young LLP
Enc

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In April 2015, Public Sector Audit Appointments Limited (“PSAA”) issued the “Statement of responsibilities of auditors and audited bodies 2015/16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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

The “Terms of Appointment from 1 April 2015” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Audit, Governance and Standards Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£18,371,338
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2015/16	£11,286
Fee – 2014/15	£14,970 (work performed by predecessor auditor)

Findings from 2014/15

1. Earned Income (earned, self-employed and private pension income)

The previous auditor completed testing in respect of income (earned, self-employed and private pension income). Their extended testing found one error, where benefit had been overpaid as a result of miscalculation of earned income. This error was extrapolated (£10,574) and was reported in their qualification letter. The previous auditor concluded that additional work would not result in amendments to the claim and would not impact on the conclusion that the claim is fairly stated. Our testing identified similar errors in 2015/16, as set out in point 1 below.

2. Rent Income

The previous auditor completed testing in respect of rent recorded. Their initial testing found one error, which resulted in an underpayment of housing benefit. Their extended testing found no other errors. They concluded that additional work would not result in amendments to the claim and would not impact on the conclusion that the claim is fairly stated. Our testing did not identify similar errors in 2015/16.

Findings from 2015/16

1. Earned Income (earned, self-employed and private pension income)

Our initial sample did not identify any cases where the calculation of earnings had been carried out incorrectly. However, as errors were identified in this area by the previous auditor, extended testing was completed. This testing found three errors totalling £60, where benefit had been overpaid. As per the DWP guidance, this error was extrapolated to £4,959 and was reported in our qualification letter.

2. War Pensions

The Council's policy is to apply a percentage increase to the parameters in the system and then review each claim individually and update using actual evidence of the War Pension award. During detailed testing of individual cases, we identified that claims are not always processed using actual evidence of the War Pension award and therefore there is a risk that war pension income is misstated.

3. Local Housing Allowance ("LHA") system error

Our initial testing identified two cases where the 2014/15 LHA rate had been incorrectly used in the calculation. As there is no eligibility to subsidy for benefit which has not been paid, the two underpayments identified do not affect housing benefit subsidy but have been reported for information.

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from DWP towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive "40+" or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous claims. We found errors within our initial testing however, as these resulted in underpayment of housing benefit, no additional testing was completed. In conjunction with the Council and as per DWP guidance, we carried out extended (40+) testing in a number of areas where errors were found in previous years.

Extended and other testing did identify a number of errors, however the Council chose not to amend the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in the qualification letter.

2. 2015/16 certification fees

PSAA determine a scale fee each year for the audit of claims and returns. For 2015/16, these scale fees were published by PSAA in March 2015 and are available on the PSAA's website (www.psaa.co.uk).

Claim or return	2015/16	2015/16	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	11,286	11,286	14,970

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016/17 is £11,228. This was prescribed by PSAA in March 2016, based on no changes to the work programme from 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the S151 Officer before seeking any such variation.

PSAA is currently consulting on the 2017/18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018/19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by DWP.

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
21 March 2017

From: Director of Finance (s151 Officer)

Subject: **BREXIT AND IMPLICATIONS FOR LOCAL AUTHORITIES**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to provide the Committee with the current position of the implications on local authorities of the UK's decision to leave the European Union.
- 1.2 The decision was made to leave the European Union on 23 June 2016 and since that time as everyone is aware there has been discussion at National Level with the Prime Minister confirming that she will start the process of leaving the European Union by the end of March. This will commence with the triggering of 'Article 50'
- 1.3 Since 23 June 2016 the economic and market environment position in the UK has been more positive than economists originally anticipated. The process of exiting the European Union is still at an early stage and attached in Annex A is a list of some of the potential implications identified that could affect Local Authorities.
- 1.4 The process of exiting the European Union is a long term exercise and further implications will become apparent in due course over the coming years. The effect of Brexit on the UK is still unknown and the implications on local government finances are uncertain at this stage.

2.0 RISK MANAGEMENT:

- 2.1 There are no risks associated with approving the recommendation.

3.0 RECOMMENDATIONS:

- 3.1 It is recommended that Members note the report.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (s151 Officer)

Background papers: None

Author ref: LBW

Contact: Louise Branford-White
Director of Finance (s151 Officer)
Direct Line No: (01609) 767024

BREXIT AND IMPLICATIONS FOR LOCAL AUTHORITIES

1.0 Introduction

- 1.1 Ever since 23 June 2016 when the UK voted to leave the European Union, Brexit has divided the nation and raised significant uncertainty among businesses and the public.
- 1.2 In October 2016 the government finally provided a time frame and revealed that Article 50, the mechanism to trigger the UK's withdrawal from the EU, would be enacted at the end of March 2017.
- 1.3 On 17 January 2017 the Prime Minister – Theresa May – outlined her plan for Brexit, with the first point of her 12-point plan to “provide certainty about the process of leaving the EU”
- 1.4 The following sections of this report cover the development of the implications for local authorities over the past nine months since the vote to leave the European Union:
 - Brexit Plan
 - Government White Paper - 20 July 2016
 - Local Government Association Briefing - Local Government and the EU – 22 December 2016
 - Local Government Association Briefing - The United Kingdom's exit from and new partnership with the European Union – February 2017

2.0 Brexit Plan

- 2.1 The Prime Minister revealed her plan for Brexit stating:
- 2.2 “I want this United Kingdom to emerge from this period of change stronger, fairer, more united and more outward-looking than ever before.
- 2.3 “I want us to be a secure, prosperous, tolerant country – a magnet for international talent and a home to the pioneers and innovators who will shape the world ahead.
- 2.4 “I want us to be a truly Global Britain – the best friend and neighbour to our European partners, but a country that reaches beyond the borders of Europe too. A country that goes out into the world to build relationships with old friends and new allies alike”
- 2.5 The following 12 points outlines part of the process of leaving the EU:
 1. Provide certainty about the process of leaving the EU
 2. Control of our own laws
 3. Strengthen the Union between the four nations of the United Kingdom

4. Maintain the Common Travel Area with Ireland
5. Brexit must mean control of the number of people who come to Britain from Europe
6. Rights for EU nationals in Britain and British nationals in the EU
7. Protect workers' rights
8. Free trade with European markets through a free trade agreement
9. New trade agreements with other countries
10. The best place for science and innovation
11. Co-operation in the fight against crime and terrorism
12. A smooth, orderly Brexit

3.0 Government White Paper 20 July 2016

- 3.1 This initial paper in July 2016 highlighted some areas in which leaving the European Union may impact on local government, with regard to devolution deals; EU structural funds; compliance with EU law; and medium-term financial and service delivery/demand implications.

3.2 Powers

- **Representation in Brexit Negotiations**

The Prime Minister, Theresa May, appointed Sajid Javid MP as Secretary of State for Communities and Local Government on 14 July 2016, replacing Greg Clark MP. In the first few days after the Brexit Vote on 23 June 2016, Greg Clark, the former Communities and Local Government Secretary argued that English local government should be part of the negotiations on the terms of the UK's exit from the EU to ensure that the powers are not simply transferred to Whitehall. Melanie Dawes, Permanent Secretary at DCLG, also suggested that some powers could be 'devolved' from the EU to local government. Lord Gary Porter, Chair of the Local Government Association, suggested that this approach could consider new powers around recycling, food hygiene and air quality.

- **Devolution**

Some uncertainty has been expressed about the future of the 'devolution deals' following the EU referendum result. The Mayor of London has called for extended devolution of power to London, particularly around powers over fiscal responsibility including tax raising powers, more control over business and skills, housing and planning, transport, health, and policing and criminal justice.

3.3 Investment Funding

- **EU Structural Funds**

The UK was due to receive around £5.3 billion in European Union structural funds in the 2014-2020 programming. It is not yet clear for how long instalments of these funds will be paid, and it is likely to depend on the eventual date on

which the UK leaves the European Union. Areas benefiting from structural funds have demanded that the Government should ensure that equivalent sums continue to be invested in their areas.

- **European Investment Bank**

The European Investment Bank (EIB) has invested some €42 billion in the UK over the past ten years. Membership of the EU is not required to access loans, but it may lead to greater requirements for guarantees and potentially a more onerous application process, and a number of green infrastructure projects currently being considered by the EIB could be impacted by the on-going uncertainty.

3.4 **Possible Financial/service Impacts**

- **Business Rates**

The Government's plans to scrap local authorities' Revenue Support Grant by 2020, with local government collectively retaining 100% of business rates revenue, will mean that as local authorities would raise most of their revenue locally, they would become more exposed to falls in tax revenue resulting from economic downturns. This may result in increased difficulty of forecasting, potentially making long-term financial planning trickier.

- **Affordable Homes**

The referendum result has prompted warnings across the construction industry about the impact of prolonged uncertainty on house prices and the cost of borrowing. This industry is highly reliant on migrant labour (between 2007 and 2014, the proportion of EU migrants in the construction sector rose from 3.65% to 7.03%). Limits on free movement could, therefore, have an adverse impact on building costs and supply, at least in the short to medium term. Local authorities with a development programme will want to ensure that their plans are sustainable in the current environment.

- **Access to Housing**

As there is no automatic entitlement to social housing in the UK, changes to the free movement of EEA nationals may impact on their eligibility to apply for social housing. According to recent DCLG statistics on social housing lettings in the past year with reference to nationality, the vast majority of lettings were made to UK nationals. Based on this data, the impact of EU migration on demand for social housing is limited. Although changes to free movement may reduce demand, much will depend on whether UK nationals living in the EU are forced to return.

- **Credit Ratings**

Some local authorities, as well as Transport for London and a number of housing associations have seen their ratings downgraded following the EU referendum result.

3.5 **Possible Legal Impacts**

- **Waste Collection and Disposal**

The key piece of EU legislation is the Waste Framework Directive which sets out key definitions and duties relating to how waste must be collected, transported,

recovered and disposed of. It also introduced recycling and recovery targets to be achieved by 2020. As the majority of EU waste management law has been transposed directly into UK domestic law, the relevant legislation and requirements on local authorities will not be automatically or immediately affected by the UK's exit from the EU. However, if the UK leaves the EU and does not become a member of the EEA, then the UK Government will be able to amend and/or repeal the domestic legislation that gives effect to EU waste legislation.

- **Energy Efficiency**

Local authorities must manage their buildings and procurement in line with energy efficiency rules based on EU law. The basis of these is the 2012 Energy Efficiency Directive which is transposed into UK law via a number of pieces of secondary legislation. The Directive places a requirement on public authorities, which includes local councils, to ensure they purchase energy efficient buildings, products and services. In the past, councils have raised concerns that such a requirement places additional costs on council procurement activity.

- **Trading Standards**

As with waste directives, most trading standards legislation consists of EU directives transposed into domestic law: therefore, this would not be repealed automatically on leaving the EU.

- **Procurement**

Local government must comply with EU public sector procurement rules. The most significant requirement is for all public contracts over €209,000 to be published in the Official Journal of the European Union (OJEU), thus making them accessible to suppliers from across the EU. In the medium term, public procurement rules more generally will remain in place as they have been implemented via UK law.

- **State Aid**

European regulations prevent the Government from providing state aid to companies of over £200,000 in any three-year period. Tax reliefs and exemptions also fall into the definition of state aid. It is likely that some form of state aid provisions would remain in place post-Brexit, as it is required both by membership of the World Trade Organisation (WTO) and the European Free Trade Association (EFTA).

4.0 Local Government Association Briefing - Local Government and the EU – 22 December 2016

- 4.1 In December 2016, prior to the Government's exit plan being published, local government leaders identified a series of themes and recommendations that should be utilised to inform decision-making. These headline priorities from the Local Government Association Briefing are detailed below:

- **Autonomy of local government**

Responsibilities repatriated from the EU cannot be centralised in Whitehall. Councils have a democratic mandate to lead their communities. We need new devolution settlements in England and across the UK to bring new powers to communities through local democracy.

- **Developing a new legal base for local government**

There are many EU laws that affect the day job of local councils. The future review of UK laws of EU origin must be informed about their real world impact. It must lead to new legislative freedoms and flexibilities for councils so that local communities, businesses and consumers can benefit.

- **Securing investment that is currently sourced from the EU**

The Government needs to begin developing a growth policy which must be fully funded to deliver its ambitions and be locally driven post-Brexit. This must be designed and delivered by local areas as an integrated replacement for EU funding and existing national schemes to support infrastructure, enterprise, and social cohesion.

- **Community cohesion**

Councils play the leading role in bringing communities together and will be important in tackling challenges such as the retention of skilled workers. For example, the adult social care workforce has a unique set of skills, but struggles with recruitment and retention. With 7 per cent of existing adult social care staff from other EU nations, securing a sustainable adult social care workforce and excellent care skills must be a priority for the Government. We are calling for urgent guarantees from Government to reform Whitehall's national approach to commissioning employment and skills funding, worth £10.5 billion a year. It is currently fragmented, costly, and fails to address the challenges faced by residents and employers.

- **Addressing place-based impacts**

In partnership with the Local Government Association, government departments must begin to evidence and address the real and varied impacts and opportunities of Brexit at the local level, in both urban and rural areas. We are consulting widely and building our evidence base to support the exit negotiations.

5.0 Local Government Association Briefing - The United Kingdom's exit from and new partnership with the European Union – February 2017

- 5.1 This Local Government Association Briefing in February 2017 builds on the briefing of 22 December 2016 and sets out analysis of the new policy announcements and how the Local Government Association will pursue the needs of local government throughout the Brexit negotiations. The key messages from the Local Government Association are:

- 5.2 **Double devolution:** The White Paper states that the Government will ‘continue to champion devolution to local government and are committed to devolving greater powers to local government where there is economic rationale to do so.’ⁱ The Local Government Association called for this immediately after the referendum and welcomes the approach and will continue to work closely with the Local Government Associations of Scotland, Wales and Northern Ireland to develop the detail of ‘double devolution’ to ensure that powers repatriated from the EU do not stop at Whitehall, Stormont, Cardiff Bay and Holyrood.
- 5.3 **Developing a new legal base for local government**
Many laws of EU origin affect the day job of councils. In the Local Government Association’s December 2016 briefing, we set out 10 areas of law where communities would benefit from powers and responsibilities being held closer to the citizen through ‘stronger local government’ after the UK exits the EU.
- 5.4 The Great Repeal Bill, which is due to be published in the next Queen’s Speech, will transpose all existing EU laws into UK law upon our exit. After we leave, the UK Parliament will then be able to decide which elements of this body of law to keep, amend or repeal.
- 5.5 Through the White Paper, the Local Government Association knows that the Government intends to ‘bring forward a White Paper on the Great Repeal Bill that provides more detail about [their] approach’. Local Government Association also know that the Great Repeal Bill ‘will enable changes to be made by secondary legislation to the laws that would otherwise not function sensibly once the UK has left the EU.
- 5.6 The Local Government Association has already set out where post-Great Repeal Bill reviews would be of benefit to local communities and have been briefing MPs and ministers on local government’s ‘asks’. More detail of such benefits will be provided over the coming months.
- 5.7 **Local regeneration funding:** Councils welcome the reaffirmation in the White Paper that European funding for local regeneration will be guaranteed up to the point the UK exits the European Union (EU). It is crucial that central and local government now work together to develop a locally driven UK replacement for EU ‘regional aid’.
- 5.8 **Community cohesion**
The Local Government Association’s December 2016 briefing set out the role that councils’ can play as leaders of their place, and the future demand for skilled workers in public services.
- 5.9 The negotiations will be closely monitored from the perspective of the three main policy principles set out in the December 2016 briefing:
- Strengthening social cohesion, and avoiding social and economic exclusion.
 - Ensuring public service standards are maintained through a supply of trained workers for key posts.
 - Developing skills in those communities that have felt no benefit from past growth programmes.

5.10 Local impacts

The risks and opportunities of leaving the EU will be different in different areas of the UK. As such, the Local Government Association has been working with numerous Government departments to ensure that their analysis of Brexit is informed by the different needs of different local areas. The Government's receptiveness to this Local Government Association approach is reflected in the White Paper's acceptance of the principle that:

'[The Government] will need to understand the potential impacts of any proposed changes in all the parts of the UK. So we will build a comprehensive picture of the needs and interests of all parts of the UK and look to develop a system that works for all.'

- 5.11 Councils and LEPs have been working with their local communities, universities and businesses to assess the risks and opportunities of Brexit and they have already submitted much place-based evidence.
- 5.12 As the Government's negotiating position is now clearer, we will encourage councils and local partners to refresh their evidence to ensure that any new opportunities and risks are being captured and understood by policy makers. For example, it is clear that the Government's negotiating position does not favour general inclusion in the Single Market, yet the White Paper states that the final UK-EU agreement:
- 'May take in elements of current Single Market arrangements in certain areas as it makes no sense to start again from scratch when the UK and the remaining Member States have adhered to the same rules for so many years.'
- 5.13 Councils should provide evidence of the consequent risks and opportunities of this stance. The Local government Association is committed to ensuring that this information forms part of the Government's and Parliament's evidence base for decision making. For example, immediately following the referendum Local Government association worked with government officials to craft a specific 'call for information' identifying key areas where it would be mutually helpful to feed analysis from local authorities into government work.. Subsequently Local Government Association has highlighted key place-based issues to relevant government departments, and at the same time have worked with government officials to organise a series of seminars on the place-based impacts of Brexit that have been held with councils and LEPs across the country. This programme of seminars continues in addition to regular meetings of the Brexit Sounding Board, which brings together chief executives and senior officers from a range of councils.
- 5.14 **Trade:** It is clear from both the Prime Minister's speech on 17 January 2017 and the White Paper that the work to develop new trading links is taking place. Councils have a long track record of building successful European and international relationships that have secured trade and investment, boosted jobs and infrastructure and helped attract visitors up and down the country. Local government therefore has an important role to play
- 5.15 The White Paper makes no reference to the relationship between trade agreements and public services such as social services and health. There is clearly a role for

local government expertise to inform this debate, in partnership with other interested stakeholders such as business and public sector partners. The Local Government Association is now working in more detail to build a balanced evidence base that demonstrates the essential role of councils in securing investment and growing local economies.

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