



**Borough of Tamworth**

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## **AUDIT AND GOVERNANCE COMMITTEE**

20 March 2018

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Committee Room 1, Marmion House, Lichfield Street, Tamworth, B79 7BZ on Wednesday, 28th March, 2018 at 6.00 pm.** Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, appearing to be 'AOS', followed by a long horizontal line extending to the right.

### **A G E N D A**

#### **NON CONFIDENTIAL**

- 1 Apologies for Absence**
- 2 Minutes of the Previous Meeting (Pages 1 - 4)**
- 3 Declarations of Interest**

*To receive any declarations of Members' interests (pecuniary and non-pecuniary) in any matters which are to be considered at this meeting.*

*When Members are declaring a pecuniary or non-pecuniary interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a pecuniary or non-pecuniary interest in respect of which they do not have a dispensation.*

- 4 The Audit Plan for Tamworth Borough Council**  
*(Report of Grant Thornton – External Auditor)*  
  
*(Report to Follow)*
- 5 Informing the Audit Risk Assessment for Tamworth Borough Council**  
*(Report of Grant Thornton – External Auditor)*  
  
*(Report to Follow)*
- 6 Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2018/19 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2017/18 (Pages 5 - 68)**  
*(Report of the Executive Director of Corporate Services)*
- 7 Final Accounts 2017/18 Action Plan (Pages 69 - 78)**  
*(Report of the Director of Finance)*
- 8 Financial Guidance (Pages 79 - 182)**  
*(Report of the Head of Internal Audit Services)*
- 9 Internal Audit Plan & Charter (Pages 183 - 202)**  
*(Report of the Head of Internal Audit Services)*
- 10 Risk Management Update (Pages 203 - 204)**  
*(The Report of the Head of Internal Audit Services)*
- 11 Audit & Governance Committee Self-Assessment (Pages 205 - 210)**  
*(Report of the Head of Internal Audit Services)*
- 12 Audit and Governance Committee Timetable**

(Discussion Item)

*People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.*

To Councillors: M Summers, R Ford, C Cooke, J Faulkner, M Gant, M Greatorex and  
R Kingstone

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## **MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD ON 8th FEBRUARY 2018**

**PRESENT:** Councillor M Summers (Chair), Councillors R Ford (Vice-Chair), C Cooke, J Faulkner, M Gant and M Greatorex

**Officers** John Wheatley (Executive Director Corporate Services), Jane Hackett (Solicitor to the Council and Monitoring Officer) and Angela Struthers (Head of Internal Audit Services)

**Visitors** Joan Barnett (Grant Thornton)

### **43 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor R Kingstone.

### **44 MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 26<sup>th</sup> October 2017 were approved and signed as a correct record.

*(Moved by Councillor M Greatorex and seconded by Councillor M Gant)*

### **45 DECLARATIONS OF INTEREST**

There were no declarations of Interest.

### **46 REVIEW OF ANTI-MONEY LAUNDERING POLICY**

**RESOLVED:** That the Committee

- 1 Approved the revised Anti-Money Laundering Policy and refer to Council for adoption in the Council's Policy Framework.
- 2 Agreed to put the Policy on to net-consent for staff and

members.

*(Moved by Councillor J Faulkner and seconded by Councillor M Gant)*

#### **47 REGULATION OF INVESTIGATORY POWERS ACT 2000**

**RESOLVED:** That the Committee

- 1 Endorsed the RIPA monitoring report for the quarter to 31 December 2017.
- 2 Agreed to put the Policy on to net-consent for staff and members.
- 3 Congratulate Solicitor to the Council on her diligence.

*(Moved by Councillor M Summers and seconded by Councillor M Greatorex)*

#### **48 AUDIT AND GOVERNANCE COMMITTEE TIMETABLE**

The Committee reviewed the timetable.

#### **49 GRANT THORNTON CERTIFICATION WORK**

The Committee congratulated Joan Barnett on her service for the last 8 years and her professional support and dedication.

The Certificate letter for year ended 31 March 2107 for Grant Thornton was distributed for Members information.

#### **50 COUNTER FRAUD UPDATE**

**RESOLVED:** That the Committee

Approved the Counter Fraud work completed during the financial year 2017/18 to date.

*(Moved by Councillor M Gant and seconded by Councillor C Cooke)*

**51 INTERNAL AUDIT UPDATE**

**RESOLVED:** That the Committee

Endorsed the Internal Audit Quarter 3 Report 2017/18 and thanked the Head of Internal Audit Services for her diligence.

*(Moved by Councillor M Summers and seconded by Councillor R Ford)*

**52 RESTRICTED**

That members of the press and public be excluded from the meeting during consideration of the Community and Development Services Update on the grounds that the business involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

*(Moved by Councillor M Greatorex and seconded by Councillor M Gant)*

**53 RISK BASED VERIFICATION**

**RESOLVED:** That the Committee

Endorsed and approve the ongoing adoption of a Risk Based Verification (RBV) Policy in determining evidence requirements for the assessment of new Housing Benefit and Council Tax Reduction claims.

*(Moved by Councillor J Faulkner and seconded by Councillor M Greatorex)*

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Chair

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## AUDIT & GOVERNANCE COMMITTEE

28<sup>th</sup> March 2018

### Report of the Executive Director Corporate Services

#### **REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2018/19 And The TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2017/18**

#### **Purpose**

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2018/19 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2017/18 approved by Council on 27<sup>th</sup> February 2018 and 12<sup>th</sup> December 2017 respectively.

#### **Recommendation**

**That Members consider the Treasury Management Reports, as detailed within the reports attached at Annex 1 and Annex 2 and highlight any changes for recommendation to Cabinet.**

#### **Executive Summary**

At its meeting on 23<sup>rd</sup> February 2010, the Council approved the Treasury Management Strategy and Prudential Indicators including, as required by the Code, that the Audit & Governance Committee be given the opportunity to scrutinise the strategy and policies, as well as receiving regular monitoring reports.

With regard to the appointment of a Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies, the code suggests:

- This involves reviewing the Treasury Management policy and procedures and making recommendations to the responsible body;
- Public Service Organisations have a responsibility to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively;
- Those charged with Governance also have a personal responsibility to ensure they have the appropriate skills and training in their role;
- The procedures for monitoring Treasury Management activities through audit, scrutiny and inspection should be sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change; and
- This includes the provision of monitoring information and regular review by Councillors in both executive and Scrutiny functions.

In compliance with the above, a copy of the Treasury Management Strategy and Prudential Indicators for 2018/19 is attached at **Annex 1**, together with a copy of the Mid-year Report on the Treasury Management Service 2017/18 at **Annex 2**.

## **Equalities implications**

There are no equalities implications arising from the report.

## **Legal implications**

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

## **Resource and Value for Money implications**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

## **Risk implications**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

## **Report Author:**

Please contact Jo Goodfellow, Management Accountant or Stefan Garner, Director of Finance, extension 241 or 242.

<i>Background Papers:-</i>	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2018/19 Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2018/19, Council 27 <sup>th</sup> February 2018
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2017/18 Council 12 <sup>th</sup> December 2017
	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2010/11, Council 23 <sup>rd</sup> February 2010.

## TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

### Purpose

To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators.

### Executive Summary

The Local Government Act 2003 requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2018/19 – 2020/21 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the Local Government Act 2003 by:

- Reporting the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;
- Setting the Council's Minimum Revenue Provision (MRP) Policy, which defines how the Council will pay for capital assets through revenue contributions each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- Setting the Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management;
- Adopting the Council's Treasury Management Policy Statement as recommended within the CIPFA Code of Practice 2017;
- Setting the Investment Strategy (in accordance with the Department for Communities and Local Government (DCLG) investment guidance); and
- Affirming the effective management and responsibility for the control of risk and clearly identify our appetite for risk. The Council's risk appetite is low in order to give priority to **Security, Liquidity then Yield** (or return on investments).

The main issues for Members to note are:

#### 1. CIPFA Prudential Code and Treasury Management Code

CIPFA issued a revised Prudential code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) in December 2017. Both these codes will be effective for the 2018/19 financial year, and are recommended to Members for adoption.

Revisions have focussed on non-treasury investments and particularly on the purchase of property to generate income, which may involve external borrowing or the use of existing cash balances. CIPFA defines the following:-

Treasury management investments – covering those investments which arise from the organisation’s cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business;

Service investments – held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration;

Commercial investments – which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as loans in subsidiaries or other outsourcing structures; or investments explicitly taken with the aim of making a financial surplus for the organisation. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

The Code requires that such investments are proportional to the level of resources available, and that the same robust procedures for the consideration of risk and return are applied to investment decisions. All such investments will be covered in the capital strategy/investment strategy, setting out the risk appetite and including specific policies and arrangements for such investments, with a schedule of existing material investments, subsidiaries, joint ventures and liabilities, including financial guarantees and risk exposure.

The Codes have introduced the requirement for local authorities to produce a detailed Capital Strategy, intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The capital strategy for this Council is included within this report.

Other key changes include ‘the treasury management role of the Chief Financial Officer’ (see Annex 7) which has been extended to include new roles in respect of the capital strategy and investment in non-financial assets. There have also been some amendments to the prudential indicators in the revised Prudential Code, ***including the removal of the incremental impact on Council Tax/Housing Rents.***

## 2. DCLG Investment Guidance and MRP Guidance

The DCLG recently issued consultation on proposals for updated investment guidance and Minimum Revenue Provision (MRP) guidance, focusing on non-financial asset investments. Consultation closed on 22nd December 2017 and revised guidance was issued on 2<sup>nd</sup> February 2018. Key issues include amendments to the definition of an investment, so that it now covers all financial assets and other non-financial assets that an authority holds primarily to generate financial returns, such as investment portfolios; and the proviso that authorities should not borrow in advance of need purely to profit from the investment of extra sums borrowed. Additional disclosures are also required in terms of risk management around investments. The guidance with regard to MRP is effective from 1<sup>st</sup> April 2019 (with the exception of changes to MRP calculations, which are effective from 1<sup>st</sup> April 2018). The investment guidance is effective from 1<sup>st</sup> April 2018, however, strategies relating to 2018/19 but presented to Council before this date do not need to include all of the additional disclosures should it not be practical or cost effective to do so. The additional requirements impacting on this Council will be included in the next Strategy report to be presented.

### 3. MIFID II

MIFID II is the EU legislation that regulates firms who provide services to clients linked to financial instruments and has been revised to strengthen consumer protection and improve the functioning of markets in light of the 2008 financial crisis.

Under these reforms effective 3<sup>rd</sup> January 2018, all local authorities are classified as retail counterparties and have to consider whether to opt up to professional status and for which types of investments. As this Council has over £10m in investments, and meets the criteria as a professional counterparty, ***we have opted up to professional status***, so that we may continue to use the full range of investments, for example Money Market Funds (MMFs), which are not available to retail counterparties. Members are requested to endorse this approach.

### 4. Investment in Property Funds

Alternative investment options are under consideration as part of the development of the Commercial Investment and Regeneration Strategy (including any prudential borrowing opportunities) to generate improved returns of c.5% p.a. (plus asset growth) including:

- Set up of trading company to develop new income streams;
- Local investment options – Lower Gungate / Solway Close development including the potential to drawdown funding from the Local Growth Fund / Local Enterprise Partnerships (GBS and Staffordshire);
- Investments in a diversified Property Fund;
- Investments in a diversified Investment Vehicle (property, shares etc.);

being long term investments of between 5 – 10 years (minimum) in order to make the necessary returns (after set up costs).

Utilising the capital receipt proceeds of the sale of the Golf Course, it is envisaged that approx. £12m will be available for long-term investment in a number of property funds. To this end the Council has recently undertaken a Property Fund Manager selection exercise, appointing Link Asset Services to provide support and advice in the identification and selection of suitable UK-focussed property funds.

At the outset, the Council was looking to engage with funds that had a broad remit of exposures to different property types, rather than being focussed on one particular area, such as shopping centres. Link Asset Services looked to the “Balanced Fund” universe of UK property funds, as outlined in the AREF/IPD UK Quarterly Property Fund Index, for the starting point for selection. This universe is the industry accepted standard for balanced property funds and included 27 funds as at the close of September 2017.

From this initial list, a number of funds were removed in instances where the Council would not be able to invest, for example those that are solely for pension funds and others where investor types are limited, excluding Local Authorities. The Council also looked to exclude funds below a minimum size threshold of £750m. This left 10 funds from which to further shortlist, and each was sent a copy of a questionnaire to complete, which had been drawn up in conjunction with Link Asset Services and focussed on a number of key areas. Following consideration of the completed questionnaires, a shortlist of 6 funds was drawn up, and the Fund Managers were invited to attend the Council’s offices and give a presentation on their fund and answer questions from the selection panel, which consisted of Council officers and Link Asset Services. Further details of the selection process are included in Link Asset Services’ report presented to Members 21<sup>st</sup> February 2018 and included within background papers to this report.

The result of the process was to look to consider splitting investment across the following six funds:-

BlackRock UK Property Fund  
Hermes Property Unit Trust  
Lothbury Property Trust  
Schroder UK Real Estate Fund  
The Local Authorities Property Fund (CCLA)  
Threadneedle Property Unit Trust

This will provide the Council with a range of approaches to property fund investment, diversification across a number of funds, rather than a concentration in only one or two options, as well as the ability to take advantage of entering a number of funds via the secondary market, whereby the Council would be purchasing units from investors looking to exit the particular fund, and may potentially gain access to a fund at a lower level of cost than via the primary route.

The Council is able to invest in property funds under legislation contained within the Local Government Act 2003.

Members are requested to endorse the above approach and approve investment in the above property funds, making use of both primary and secondary markets as appropriate, at the discretion of the Executive Director Corporate Services and Director of Finance.

5. The CIPFA Code of Practice and associated Guidance Notes 2017 (to be adopted by the Council as one of the recommendations within this report) requires that the following four clauses are adopted:
  - a) This Council 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 organization will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  - b) This 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.
  - c) This Council 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 Executive Director Corporate Services, who will act in accordance with the organisation's policy statement and TMPs.
  - d) This Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## Equalities Implications

There are no equalities implications arising from the report.

## Legal Implications

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

## Resource and Value for Money Implications

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

## Risk Implications

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

A Glossary of terms utilised within the report can be found at **ANNEX 9**.

**Report Author** Please contact Jo Goodfellow, Management Accountant, ext 241 or Stefan Garner, Director of Finance, ext 242

<b>Background Papers:-</b>	<b><i>Budget &amp; Medium Term Financial Strategy 2018/19</i></b>
	<b><i>Mid-year Treasury Report 2017/18 Council, 12/12/17</i></b>
	<b><i>Annual Treasury Report 2016/17 Council, 12/09/17</i></b>
	<b><i>Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement &amp; Annual Investment Statement 2017/18 Council 21/02/2017</i></b>
	<b><i>Treasury Management Training slides, 7th October 2015 &amp; 21<sup>st</sup> February 2018</i></b>
	<b><i>CIPFA Code of Practice on Treasury Management in Public Services 2017</i></b>
	<b><i>DCLG Guidance on Local Government Investments March 2010</i></b>
	<b><i>Local Government Act 2003</i></b>
	<b><i>Treasury Management Practices 2018/19 (Operational Detail)</i></b>
	<b><i>Link Asset Services Property Fund Selection Report December 2017</i></b>

## **1. INTRODUCTION**

### **1.1 Background**

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management 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.

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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

### **1.2 The Treasury Management Policy Statement**

This Council 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.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### **1.3 Reporting Requirements**

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first, and most important, report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) Policy (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** (Reported by December) – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.



**An Annual Treasury Report** (Reported by September) – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Scrutiny**

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

### **Capital Strategy**

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

## **1.4 Treasury Management Strategy for 2018/19**

The strategy for 2018/19 covers two main areas:

### **Capital Issues**

- the Capital Plans and the Prudential Indicators;
- the Minimum Revenue Provision (MRP) policy

### **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;
- creditworthiness policy; and
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

## 1.5 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Detailed Treasury Management training was provided in February 2015, October 2015, and most recently February 2018 but will also be provided as and when required.

The training needs of Treasury Management Officers are regularly reviewed.

## 1.6 Treasury Management Consultants

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

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

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

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

The Council's Capital Expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure.

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:

<b>Capital Expenditure £m</b>	<b>2016/17 Actual</b>	<b>2017/18 Predicted Outturn*</b>	<b>2017/18 Re- profiling</b>	<b>2018/19 Estimate**</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
<b>Non-HRA</b>	1.408	1.817	2.756	10.176	6.708	0.865
<b>HRA</b>	7.351	8.974	17.122	13.274	7.812	7.156
<b>Total</b>	<b>8.759</b>	<b>10.791</b>	<b>19.878</b>	<b>23.450</b>	<b>14.520</b>	<b>8.022</b>

\* Actual Projected at Period 9

\*\* excludes projected slippage from 2017/18

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

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.

Capital Financing (GF/HRA)	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21
Use of Reserves	Actual	Predicted Outturn*	Re-profiling	Estimate**	Estimate	Estimate
Capital Receipts	2.032	1.249	0.923	8.906	6.903	1.830
Capital Grants	0.846	1.407	1.206	1.404	0.360	0.360
Capital Reserves	2.235	3.778	7.646	6.004	2.585	2.100
Revenue Reserves	3.618	4.330	2.252	5.302	4.527	3.606
Revenue Contributions	0.028	0.028	0.537	0.168	-	0.030
<b>Net financing need for the year</b>	-	-	7.314	1.666	0.145	0.095
<b>Total</b>	<b>8.759</b>	<b>10.791</b>	<b>19.878</b>	<b>23.450</b>	<b>14.520</b>	<b>8.022</b>

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

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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI 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 schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Revised Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Capital Financing Requirement</b>					
CFR – non housing	0.943	0.885	2.547	2.589	2.581
CFR - housing	68.041	68.041	75.255	75.255	75.255
<b>Total CFR</b>	<b>68.984</b>	<b>68.926</b>	<b>77.802</b>	<b>77.844</b>	<b>77.836</b>
<b>Movement in CFR</b>	<b>(0.058)</b>	<b>(0.058)</b>	<b>8.876</b>	<b>0.041</b>	<b>(0.008)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	-	-	8.980	0.145	0.095
Less MRP/VRP and other financing movements	<b>(0.058)</b>	<b>(0.058)</b>	<b>(0.104)</b>	<b>(0.104)</b>	<b>(0.103)</b>
<b>Movement in CFR</b>	<b>(0.058)</b>	<b>(0.058)</b>	<b>8.876</b>	<b>0.041</b>	<b>(0.008)</b>

\* CFR 2015/16 £69.042m

## 2.3 Core Funds and Expected Investment Balances

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.

Year End Resources £m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Fund Balances/Reserves	33.179	33.132	13.696	11.891	10.609
Capital Receipts	12.610	19.803	25.278	25.328	24.452
Provisions*	4.751	4.751	4.751	4.751	4.751
Other	0.048	0.048	0.048	0.048	0.048
<b>Total Core Funds</b>	<b>50.588</b>	<b>57.734</b>	<b>43.773</b>	<b>42.018</b>	<b>39.860</b>
Working Capital**	6.547	5.540	25.167	25.262	24.264
(Under)/Over Borrowing	(5.924)	(5.866)	(14.742)	(14.783)	(14.776)
<b>Expected Investments</b>	<b>51.211</b>	<b>57.408</b>	<b>54.198</b>	<b>52.497</b>	<b>49.349</b>

\* Includes full provision for NNDR appeals

\*\* Working capital balances shown are estimated year end; these may be higher mid year. This figure also includes potential budget reprofiling and cashflow movements in year.

## 3. BORROWING

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 and the Council's capital strategy. 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.

### 3.1 Current Portfolio Position

The Council's Treasury Portfolio position at 31<sup>st</sup> March 2017, with forward projections, is 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.

Treasury Portfolio	2016/17 Actual £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
<b>External Debt</b>					
Debt at 1st April	65.060	63.060	63.060	63.060	63.060
Expected change in Debt	(2.000)	-	-	-	-
<b>Actual gross debt at 31st March</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>
<b>The Capital Financing Requirement</b>	<b>68.984</b>	<b>68.926</b>	<b>77.802</b>	<b>77.844</b>	<b>77.836</b>
<b>Under / (over) borrowing</b>	<b>5.924</b>	<b>5.866</b>	<b>14.742</b>	<b>14.783</b>	<b>14.776</b>

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 2018/19 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 or speculative purposes.

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

### 3.2. Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary** - This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

<b>Operational Boundary</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	63.060	63.060	63.060	63.060
<b>Total</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>

**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 borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

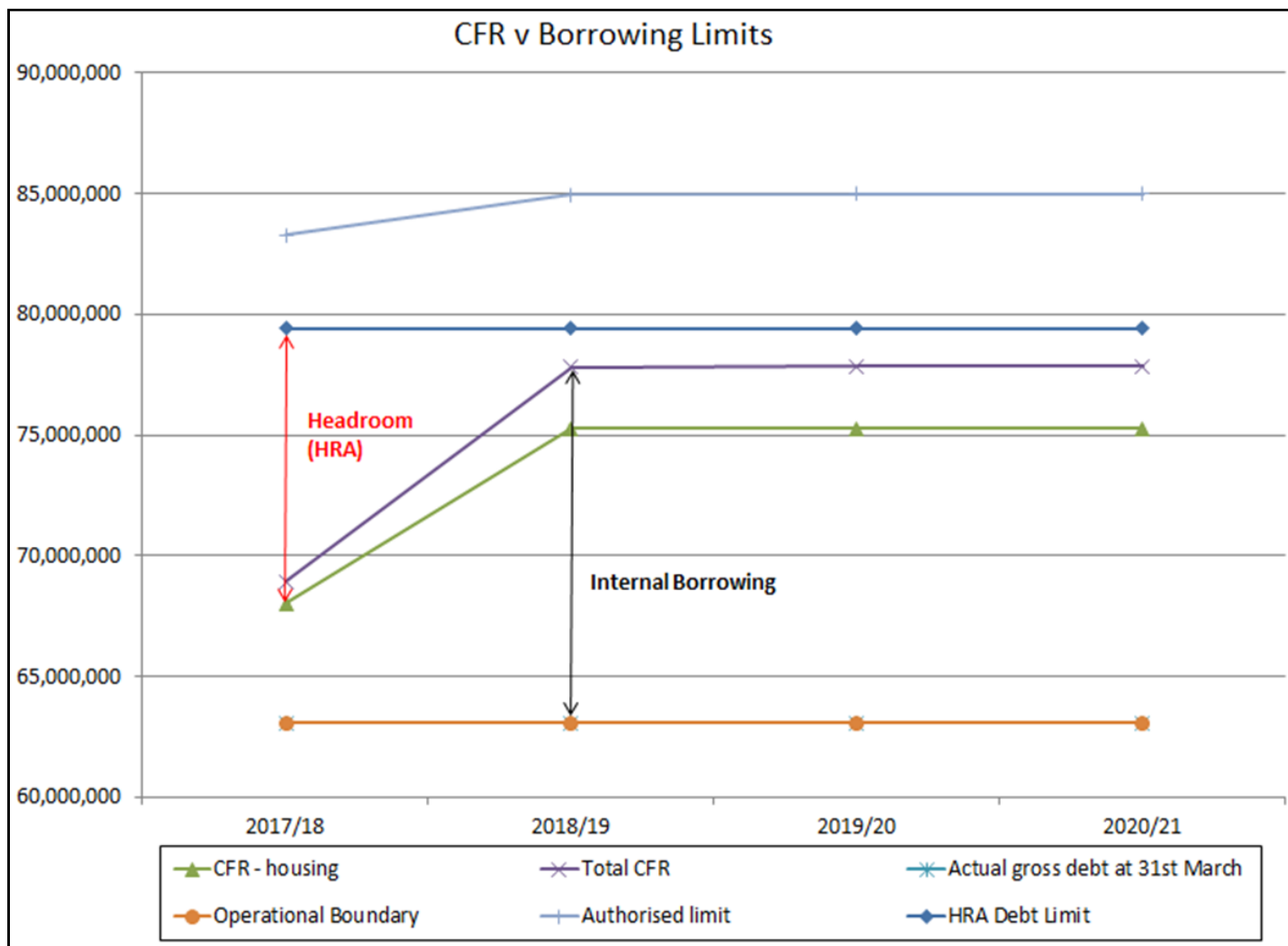
The Council is asked to approve the following Authorised Limit:

<b>Authorised limit</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	83.292	84.954	84.996	84.988
<b>Total</b>	<b>83.292</b>	<b>84.954</b>	<b>84.996</b>	<b>84.988</b>

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

<b>HRA Debt Limit</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Total	79.407	79.407	79.407	79.407

This information summarised graphically below:



### 3.3. Prospects for Interest Rates

A more detailed interest rate view and economic commentary are at **ANNEXES 2 & 3**.

The Council has appointed Link 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 their central view.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as

above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

## **Investment and borrowing rates**

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of 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.

### **3.4 Borrowing Strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered..

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

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

### **3.5 Policy on Borrowing in Advance of Need**

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Debt Rescheduling**

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

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; and

- \* enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identifying 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.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

### **3.7 Municipal Bond Agency**

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council may make use of this new source of borrowing as and when appropriate.

## **4. ANNUAL INVESTMENT STRATEGY**

### **4.1 Investment Policy**

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, then return.

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.

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 achieve this consideration 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.

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.

Investment instruments identified for use in the financial year are listed in Annex 4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – schedules.

### **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by Link Asset Services. 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.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of 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 \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds 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

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating 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.

All credit ratings will be monitored on a daily basis/as and when notified. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data, market information and information on any external support for banks, to help support its decision making process.

Counterparty	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks/Building Societies *	yellow	£10m	5yrs
Banks/Building Societies	purple	£10m	2 yrs
Banks/Building Societies	orange	£10m	1 yr
Banks – part nationalised	blue	£10m	1 yr
Banks/Building Societies	red	£10m	6 mths
Banks/Building Societies	green	£10m	100 days
Banks/Building Societies	No colour	Not to be used	
Council's banker (where "No Colour")	No colour	£2m	1 day
DMADF	UK sovereign rating	£10m	6 months
Local authorities	n/a	£10m	5yrs
Counterparty	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds CNAV	AAA	£10m	liquid
Money Market Funds LVNAV	AAA	£10m	liquid
Money Market Funds VNAV	AAA	£10m	liquid

\* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see Annex 4.

### 4.3 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of 'AA –' from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 4.4 Investment Strategy

**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).

**Investment Returns Expectations.** Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Year	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later Years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

**Investment Treasury Indicator and Limit** - total principal funds invested for greater than 365 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.

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

<b>Maximum principal sums invested &gt; 365 days</b>			
<b>Treasury Indicator</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
Principal sums invested > 365 days	20.000	20.000	20.000

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.

#### **4.5 Investment Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID.

#### **4.6 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## 5. ANNEXES

1. Prudential and Treasury Indicators and MRP Statement
2. Interest Rate Forecasts
3. Economic Background
4. TMP 1 Credit & Counterparty Risk Management
5. Approved Countries for investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. Treasury Management Practices
9. Treasury Management Glossary of Terms
10. Prudential Indicators – Definitions/Interpretation

## ANNEX 1

### THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2020/21 AND MRP STATEMENT

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

#### 1 Capital expenditure

A breakdown of capital expenditure by Directorate is detailed within the Performance Healthcheck reported quarterly to Cabinet.

#### 2 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund Capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve **an 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 MRP Statement:

For Capital Expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DCLG regulations (option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

#### 3 Affordability Prudential Indicators

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:

**a) 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 net of investment income) against the net revenue stream (net cost of services).

Ratio of financing costs to net revenue stream.	2016/17 Actual %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Non-HRA	(3.49)%	(2.45)%	(2.55)%	(4.27)%	(5.11)%
HRA	37.84%	38.75%	39.71%	40.56%	39.47%

The estimates of financing costs include current commitments and the proposals in this budget report.

**b) Housing Revenue Account Debt Ratios**

HRA Debt to Revenue Ratio	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA Debt £m *	68.041	68.041	75.255	75.255	75.255
HRA Revenues £m	18.451	17.979	17.755	17.449	17.822
Ratio of Debt to Revenues %	369	378	424	431	422

HRA Debt per Dwelling	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA Debt £m	68.041	68.041	75.255	75.255	75.255
Number of HRA Dwellings	4,380	4,316	4,238	4,344	4,309
Debt per Dwelling £'000	15.536	15.767	17.759	17.326	17.467

\* The HRA's notional debt borrowing requirement

**4 Treasury Indicators for Debt**

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

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



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

<b>Interest Rate Exposure</b>	<b>2018/19 £m Upper</b>	<b>2019/20 £m Upper</b>	<b>2020/21 £m Upper</b>
Limits on Fixed Interest Rates based on net debt	30.003	31.052	32.507
Limits on Variable Interest Rates based on net debt	6.306	6.306	6.306

Variable interest rate debt cannot exceed 10% of gross debt.

<b>Maturity structure of Fixed Interest Rate borrowing 2018/19</b>		
<b>Timeline</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

<b>Maturity structure of Variable Interest Rate borrowing 2018/19</b>		
<b>Timeline</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

## ANNEX 2 INTEREST RATE FORECASTS 2017 – 2021

PWLB forecasts are based on PWLB certainty rates.

<b>Link Asset Services Interest Rate View</b>														
	<b>Dec-17</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Bank Rate</b>														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
<b>5yr PWLB Rate</b>														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
<b>10yr PWLB Rate</b>														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
<b>25yr PWLB Rate</b>														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
<b>50yr PWLB Rate</b>														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

## ANNEX 3 ECONOMIC BACKGROUND

**GLOBAL OUTLOOK.** **World growth** looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution**.

### **KEY RISKS - central bank monetary policy measures**

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income**, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift UP in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

**UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation

to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank

Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

**EZ.** Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

**USA.** Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

**JAPAN.** GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

## **ANNEX 4 TREASURY MANAGEMENT PRACTICE (TMP1) CREDIT AND COUNTERPARTY RISK MANAGEMENT**

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

**NON-SPECIFIED INVESTMENTS:** These are investments which do not meet the specified investment criteria.

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.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

<b>Counterparty</b>	<b>Minimum credit criteria / colour band</b>	<b>£ limit per institution</b>	<b>Max. maturity period</b>
DMADF – UK Government	N/A	£10m	6 months
UK Government gilts	UK sovereign rating	£10m	12 months
UK Government Treasury bills	UK sovereign rating	£10m	12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	£10m	6 months
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LVAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Local authorities	N/A	£10m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£10m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£10m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	

Counterparty	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
UK Part Nationalised Banks	Blue	£10m	
<b>Non-Specified Investments</b>			
Property Funds - the use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources		£10m	Limit will be set based on level of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type
Wider Investment Funds - the use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources		£10m	Limit will be set based on level of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.



## ANNEX 5 APPROVED COUNTRIES FOR INVESTMENT

*This list is based on those countries which have sovereign ratings of AA- or higher (showing the lowest rating from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service (except for Hong Kong, Norway and Luxembourg).*

### AAA

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

### AA+

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

### AA

- Abu Dhabi (UAE)
- France
- U.K.\*

### AA-

- Belgium
- Qatar

(Per Link Asset Services 15/1/18)

\* At its meeting of the 15<sup>th</sup> September 2009, full Council approved a recommendation that;

***'authorises the use of institutions currently supported by the UK Government should its Sovereign rating be downgraded below the current requirement for a 'AAA' rating by all three rating agencies'***

this approval continues to form part of the strategy in 2018/19.

## **ANNEX 6 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full Council**

- receiving and reviewing reports on Treasury Management policies, practices and activities.
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, Treasury Management Policy statement and Treasury Management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

### **(ii) Cabinet**

- receiving and reviewing Treasury Management policy statement and Treasury Management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Audit and Governance Committee**

- reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet.
- receiving and reviewing regular monitoring and making recommendations to the Cabinet.

## **ANNEX 7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

### **The S151 (responsible) 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**

**Additionally, from 2018/19 (however, Cipfa have stated if local authorities consider that they will not be able to implement the changes to the indicators in full for the 2018/19 financial year, CIPFA would recommend that the changes be made to the reporting of these treasury management indicators as soon as reasonably possible. The changes will be fully implemented from 1 April 2019):**

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following -
  - Risk management (TMP1), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## **TREASURY MANAGEMENT PRACTICES**

The Treasury Management Practices document (TMPs) forms detailed operational procedures and processes for the Treasury Management function. This document can be found on the Council's Internet by following the following link;

<http://www.tamworth.gov.uk/treasury-practices>

and clicking on the TMPs folder.

The items below are summaries of the individual TMPs which the Council has to produce and adopt under the Treasury Code of Practice.

### **TMP1 : RISK MANAGEMENT**

#### **General Statement**

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

#### **1.1 Credit and Counterparty Risk Management**

*Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.*

This organisation regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and detailed in the TMP Operational document.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **1.2 Liquidity Risk Management**

*This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.*

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### **1.3 Interest Rate Risk Management**

*The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

### **1.4 Exchange Rate Risk Management**

*The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

### **1.5 Inflation Rate Risk Management**

*Inflation risk, also called purchasing power risk, is the chance that cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.*

The organization will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

### **1.6 Refinancing Risk Management**

*The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.*

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

### **1.7 Legal and Regulatory Risk Management**

*The risk that the organisation itself, or an organisation with which it is dealing in its Treasury Management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.*

This organisation will ensure that all of its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, Council and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its Treasury Management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

## **1.8 Fraud, Error and Corruption, and Contingency Management**

*The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its Treasury Management activities so that there can be no possible confusion as to what proper procedures are.
- c) Staff will not be allowed to take up Treasury Management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all Treasury Management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

## **1.9 Price Risk Management**

*The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated Treasury Management policies and objectives are compromised, against which effects it has failed to protect itself adequately.*

This organisation will seek to ensure that its stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP2 : PERFORMANCE MEASUREMENT**

The Borough Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.

The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular

examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the Treasury Management function will be measured using the criteria set out in the detailed TMP Operational document.

### **TMP3 : DECISION-MAKING AND ANALYSIS**

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are set out in the detailed TMP Operational document.

### **TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques set out in the detailed TMP Operational document and within the limits and parameters defined in TMP1.

### **TMP5 : ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

The Council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of Treasury Management responsibilities.

The principle, on which this will be based is the clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of Treasury Management decisions and the audit and review of the Treasury Management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principals, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are set out in the detailed TMP Operational document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are set out in the detailed TMP Operational document.

The delegations to the Section 151 Officer in respect of Treasury Management are set out in the detailed TMP Operational document. He will fulfil all such responsibilities in accordance with the Council's policy statement and TMP's and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.



## **TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

The Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its Treasury Management activities; and on the performance of the Treasury Management function.

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMPs.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit and Governance Committee will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.

The present arrangements and the form of these reports are set out in the detailed TMP Operational document.

## **TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Section 151 Officer will prepare and Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together, with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

The Council will account for its Treasury Management activities, for decisions made and transactions executed in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## **TMP8 : CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the detailed TMP Operational document.

## **TMP9 : MONEY LAUNDERING**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are set out in the detailed TMP Operational document.

## **TMP10 : TRAINING AND QUALIFICATIONS**

The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will seek to appoint individuals, who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that Council members tasked with Treasury Management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

## **TMP11 : USE OF EXTERNAL SERVICE PROVIDERS**

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the detailed TMP Operational document.

## **TMP12 : CORPORATE GOVERNANCE**

The Council is committed to the pursuit of proper corporate governance throughout its services, and to establishing the principles and practices by which this can be achieved. Accordingly the Treasury Management function and its activities will be undertaken with openness, transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements are set out in the detailed TMP Operational document and are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## Treasury Management Glossary of Terms

Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Capital Financing Requirement	The Council's underlying need for borrowing for a capital purpose.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange for regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.
Credit Rating	This is a scoring system that lenders issue organisations with, to determine how credit worthy they are.
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
iTraxx	This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25 European financial companies. Clients can use the iTraxx to see where an institution's CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings.
Liquidity	An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires.
Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.

Minimum Revenue Provision	Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision
Monetary Policy Committee (MPC)	Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. Their primary target (as set by the Government) is to keep inflation at or around 2%.
Security	An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity.
Short Term	A period of 364 days or less
Supranational Bonds	A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.
Treasury Management	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.
Working Capital	Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.
Yield	The annual rate of return on an investment, expressed as a percentage.

## ANNEX 10

### PRUDENTIAL INDICATORS – DEFINITIONS / INTERPRETATION

CIPFA's Prudential Code for Capital Finance requires local authorities to prepare Prudential Indicators of their intended capital spending plans for the forthcoming and future years. The indicators are intended to help the decision making process within an authority and must be approved by the full Council before the beginning of the financial year. The indicators are neither comparative statistics nor performance indicators. Different Councils will have different figures reflecting their history and local circumstances.

- 1. Estimate of total capital expenditure to be incurred** – This summarises the Council's current plans for the total capital expenditure over the next 3 years. Details of individual schemes are contained within the capital estimate pages.
- 2. Estimates of Capital Financing Summary** – This details the capital financing sources for the next 3 years.
- 3. Estimated Ratio of financing costs to net revenue stream** - This indicator has been calculated as debt interest, borrowing refinancing costs, minimum revenue provision, depreciation for HRA and net of investment income and divided by the General Fund (GF) budget requirement for the GF element of costs and the total of HRA income for the HRA costs. For GF Account, the indicator has been calculated gross of government support in the form of RSG for the proportion of capital expenditure funded from supported level of borrowing.
- 4. Capital Financing Requirement** – This represents the Council's underlying need to borrow to finance historic capital expenditure and is derived by aggregating specified items from the Council's balance sheet. The actual **net borrowing** is lower than this because of the current strategy to use internal borrowing rather than replace maturing debt.
- 5. Actual External Debt** – This is a key indicator and Section 3 of the Local Government Act 2003 requires the Council to ensure that gross external debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.
- 6. Authorised Borrowing Limit for external debt** - This indicator represents the maximum amount the Council may borrow at any point in time in the year and has to be set at a level the Council considers is **prudent**. It allows for uncertain cash flow movements and borrowing in advance for future requirements. Although the Council does not currently have any finance lease liabilities, a limit has been separately identified for potential future leasing liabilities. The recommended authorised limits for external debt are gross of investments and are consistent with the Council's current commitments, existing plans and the current treasury management policy and strategy. The authorised limit determined for 2018- 19 is the statutory limit determined under section 3(1) of the Local Government Act 2003.
- 7. Operational Boundary for external debt** - The proposed operational boundary for external debt is calculated on the same estimates as the authorised limit but reflects estimates of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified.

**8. Treasury Management** – these indicators form part of the treasury management strategy and policy statement approved by the Council each year before the beginning of the financial year. The main indicators are:

(a) The adoption of **CIPFA Code of Practice for Treasury Management**, which the Council adopted before the current Prudential System was introduced.

(b) **Interest Rate Exposure** - The approved Treasury Policy Statement and Strategy contains upper and lower limits for fixed and variable interest rate exposure for net outstanding principal sums.

(c) **Maturity Structure of Borrowing** – The approved treasury management strategy also sets out the maturity structure of the Council's borrowing to ensure the Council is not exposed to risks of having to refinance large level of debt at a time in future when interest rates may be volatile or uncertain.

(d) **Investments longer than 365 days** – The approved treasury management strategy includes a limit of £20m for investments maturing beyond 365 days.

## COUNCIL

TUESDAY 12<sup>TH</sup> DECEMBER 2017

## REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT  
STRATEGY MID-YEAR REVIEW REPORT 2017/18**EXEMPT INFORMATION**

None

**PURPOSE**

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

**RECOMMENDATIONS**

**That Council be requested to accept the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2017/18.**

**EXECUTIVE SUMMARY**

This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following

- An economic update for the first six months of 2017/18;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18;
- Revised CIPFA codes and Markets in Financial Instruments Directive II (MIFID II)

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.
2. There are no issues to report regarding non-compliance with the approved prudential indicators.
3. The investment portfolio yield for the first six months of the year is 0.52% (0.59% for the same period in 2016/17) compared to the 3 Month LIBID benchmark rate of 0.18% (0.38% for the same period in 2016/17).

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues was most recently delivered for Members in October 2015 and will be provided as and when required.

## **RESOURCE IMPLICATIONS**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

## **LEGAL/RISK IMPLICATIONS BACKGROUND**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

## **SUSTAINABILITY IMPLICATIONS**

None

## **BACKGROUND INFORMATION**

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2011) suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2017/18 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet also receives regular monitoring reports as part of the quarterly healthcheck on Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Treasury Management is defined as:

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



## Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 13<sup>th</sup> December 2012.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first part of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

### 1. Economic Update

#### 1.1 UK

After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as

consumers cut back on their expenditure.

However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

The MPC increased Bank Rate to 0.5% in November. The big question is now whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates were indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

## 1.2 EU

Economic growth in the EU, (the UK's biggest trading partner), has been lacklustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and

momentum thanks to this stimulus.

GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

### 1.3 USA

Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

### 1.4 Japan and China

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

### 1.5 Interest rate forecasts

The Council's treasury advisor, Link Asset Services (previously known as Capita Asset Services), has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed.

Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

## 2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Council on 21st February 2017.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 3. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### 3.1 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2017/18 Original Programme	Budget B'fwd from 2016/17	Virements to Programme in Year	Total 2017/18 Budget	Actual Spend @ Period 6	Predicted Outturn	2017/18 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	2.421	2.731	0.245	5.397	0.760	3.236	4.511
HRA	16.413	9.575	-	25.988	4.918	11.961	25.983
<b>Total</b>	<b>18.834</b>	<b>12.306</b>	<b>0.245</b>	<b>31.385</b>	<b>5.678</b>	<b>15.197</b>	<b>30.494</b>

\* Includes potential expenditure slippage into 2018/19

### 3.2 Changes to the Financing of the Capital Programme

The following table draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt

(the Minimum Revenue Provision).

This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

<b>Capital Expenditure</b>	<b>2017/18 Capital Programme £m</b>	<b>2017/18 Predicted Outturn £m</b>	<b>2017/18 Budget * £m</b>
Unsupported	4.972	0.100	8.214
Supported	13.862	15.097	23.171
<b>Total spend</b>	<b>18.834</b>	<b>15.197</b>	<b>31.385</b>
Financed by:			
Grants - Disabled Facilities	0.224	0.404	0.404
Coalfields Grant	-	0.092	0.222
Section 106's	0.100	0.239	0.239
GF Receipts	0.222	0.407	0.462
GF Reserve	0.180	0.259	0.519
Sale of Council House Receipts	0.114	0.204	0.341
HRA Receipts	0.500	0.513	0.513
HLF Assembly Rooms Lottery	0.316	0.215	0.344
Grants - Assembly Rooms (SLGF)	1.264	0.809	1.334
Public Contributions (Assembly Rooms)	-	-	0.025
HLF/SCC/Donation - Castle Mercian Trail	-	0.508	0.508
MRR	4.213	4.192	6.408
HRA 1-4-1 Replacements Receipts	0.650	0.879	0.879
HRA Reserve	5.009	2.564	7.161
HRA Regeneration Fund	1.070	3.566	3.566
HCA Grant	-	0.246	0.246
<b>Total Financing</b>	<b>13.862</b>	<b>15.097</b>	<b>23.171</b>
<b>Borrowing need</b>	<b>4.972</b>	<b>0.100</b>	<b>8.214</b>

\* includes potential expenditure slippage into 2018/19

### 3.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The following table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for External Debt

Operational Boundary	2016/17	2017/18	2017/18	2017/18
	Outturn £m	Capital Programme £m	Projected Outturn £m	Budget* £m
CFR – Non Housing	0.943	1.885	0.885	0.885
CFR – Housing	68.041	75.255	68.041	76.255
Total CFR	68.984	77.140	68.926	77.140
<b>Net movement in CFR</b>	<b>(0.058)</b>	<b>4.914</b>	<b>(0.058)</b>	<b>8.156</b>
Operational Boundary				
Expected Borrowing	63.060	65.060	63.060	63.060
<b>Total debt 31 March</b>	<b>63.060</b>	<b>65.060</b>	<b>63.060</b>	<b>63.060</b>

### 3.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Net Borrowing to CFR	2016/17 Outturn £m	2017/18 Original Estimate £m	2017/18 Projected Outturn £m	2017/18 Budget £m
Gross borrowing	63.060	65.060	63.060	63.060
Less investments	51.211	58.143	57.408	49.194
Net borrowing	11.849	6.917	5.653	13.867
CFR (year end position)	68.984	77.140	68.926	77.140

The Executive Director Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

<b>Authorised Limit for External Debt</b>	<b>2017/18 Original Indicator</b>	<b>Current Position</b>	<b>2017/18 Revised Indicator</b>
Borrowing	84.292	84.292	84.292
Total	84.292	84.292	84.292

#### **4. Investment Portfolio 2017/18**

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.50% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £64.5m of investments as at 30<sup>th</sup> September 2017 (£50.119m at 31<sup>st</sup> March 2017) and the investment portfolio yield for the first six months of the year is 0.52% against a benchmark of the 3 months LIBID of 0.18%. A full list of investments held as at 30<sup>th</sup> September 2017 is detailed in **APPENDIX 1**.

The Council's budgeted investment return for 2017/18 is £260k, and performance for the year is projected to be £26k below budget, due to continuing low interest rates.

#### **CIPFA Benchmarking Club**

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance over the year against other members. Our average return for In House Investments for the period October 2016 to September 2017 was 0.5% compared to the group average of 0.6% (information from CIPFA Benchmarking Report Q2 2017/18). This is considered to be a reasonable result in light of the current financial climate, our lower levels of deposits/funds and shorter investment time-lines due to Banking sector uncertainty, when compared to other Authorities.



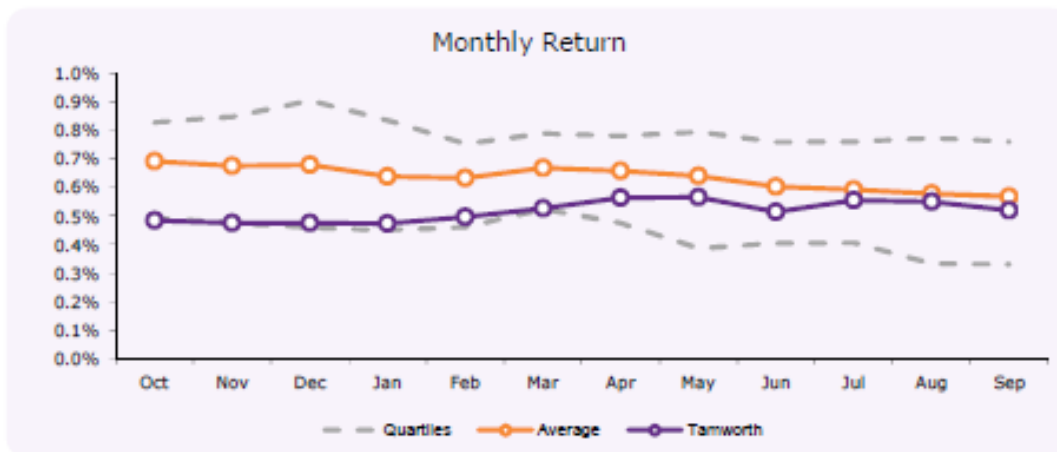
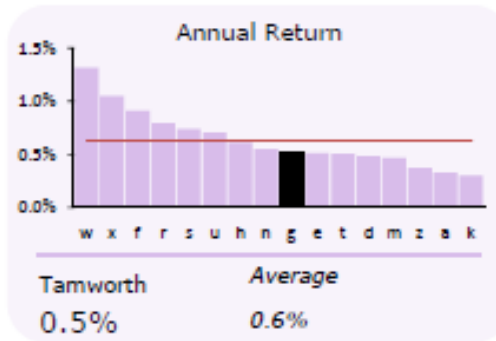
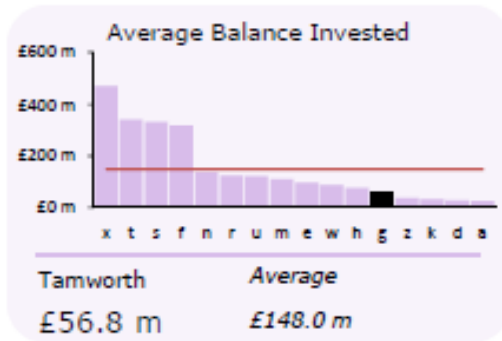
This can be analysed further into the following categories:

Category	Average Balance Invested		Average Annual Return Received	
	£m		%	
	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed Investments (up to 30 days)	-	0.2	-	0.3
Fixed Investments (between 31 and 90 days)	-	1.2	-	0.3
Fixed Investments (between 91 and 364 days)	29.3	58.4	0.5	0.7
Fixed Investments (between 1 year and 3 years)	-	15.4	-	1.0
Fixed Investments (over 3 years)	-	12.3	-	2.2
Callable and Structured Deposits	-	11.3	-	1.7
Notice Accounts	12.0	22.4	0.7	0.4
Money Market Funds (Constant Net Asset Value)	9.5	24.2	0.2	0.3
Money Market Funds (Variable Net Asset Value)	-	29.2	-	0.6
DMADF	-	0.5	-	0.1
CDs, Gilts and Bonds	6.0	24.7	0.5	1.9
<b>Average of all investments (Managed in House)</b>	<b>56.8</b>	<b>148.0</b>	<b>0.5</b>	<b>0.6</b>

The data above and graphs below display that despite the Council being a small investor in the markets, performance is only marginally lower in those areas where both the Council and other member authorities invest.

The main variances arise from longer term fixed investments (in excess of 1 year) and instruments that the council do not currently get involved with i.e. Callable and Structured Deposits which are longer term deposits which (in line with our use of the Link Asset Services methodology and our approved specified limits in our Treasury Management strategy) are currently prohibited for Tamworth Borough Council and affirms our 'low appetite for risk' in the continuing unsettled markets.

### Combined In-House Investments (excl. impaired investments)



Monthly Return (Oct 16 - Sept 17)													
	Oct	Nov	Dec	Jan	Feb	March	Apr	May	June	July	Aug	Sept	Year
Balance £'m	58.5	59.9	60.3	60.5	57.9	53.1	53.0	51.4	52.9	54.5	56.0	63.6	56.8
Interest £'k	24.1	23.4	24.3	24.3	22.1	23.8	24.5	24.7	22.3	25.6	26.1	27.1	292.3
Return	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%
Upper Quartile	0.8%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Average	0.7%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Lower Quartile	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%	0.5%
% Diff from Avg	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%

### Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on the 21st February 2017 will meet the requirement of the Treasury Management function.

## 5. Borrowing

The Council's estimated revised capital financing requirement (CFR) for 2017/18 is £68.926m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3.4 shows the Council will have estimated borrowings of £63.060m and has utilised £5.866m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

In the first half of the year the Council had no PWLB debt maturing. The capital programme requires additional unsupported borrowing of £8.2m.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Use of internal funds is a more efficient use of resources as borrowing rates are significantly higher than investment returns. However, as and when resources are depleted or utilised, the opportunity to use internal balances will decrease and interest charges will increase.

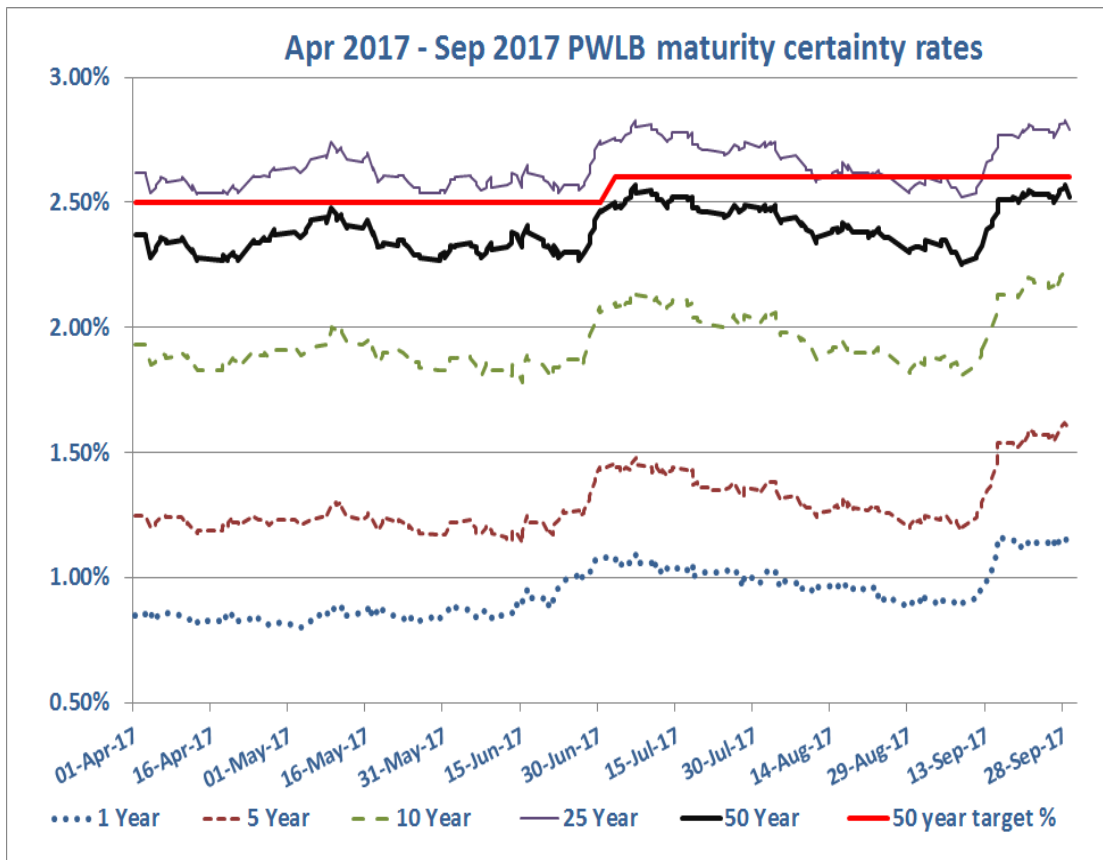
Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- \* *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 recession or risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- \* *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a 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.*

Given the current economic forecasts for the coming years, it is unlikely that any additional borrowing will be undertaken during 2017/18.

The table and graph below show the movement in PWLB (Certainty Rates) for the first six months of the year to date:

**PWLB certainty rates 1 April 2017 to 30 September 2017**



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

**6. Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

**7. Revised CIPFA Codes and MIFID II**

**7.1 Revised CIPFA Codes**

The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

## 7.2 MIFID II

MIFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments and it is now being revised to strengthen consumer protection and improve the functioning of markets in light of the 2008 financial crisis.

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

## REPORT AUTHOR

Please contact Stefan Garner, Director of Finance, extension 242, or Jo Goodfellow, Management Accountant , extension 241.

## LIST OF BACKGROUND PAPERS

<i>Background Papers -</i>	<i>Local Government Act 2003</i>
	<i>CIPFA Code of Practice on Treasury Management in Public Services 2011</i>
	<i>Annual Report on the Treasury Management Service and Actual Prudential Indicators 2016/17 – Council 12<sup>th</sup> September 2017</i>
	<i>Treasury Management Strategy &amp; Prudential Indicators Report 2017/18 - Council 21<sup>st</sup> February 2017</i>
	<i>Budget &amp; Medium Term Financial Strategy 2017/18 - Council 21st February 2017</i>
	<i>Financial Healthcheck Period 6, September 2017</i>
	<i>CIPFA Treasury Management Benchmarking Club Report Quarter 2, September 2017</i>

## APPENDICES

### APPENDIX 1 Current Investment List

### APPENDIX 1

#### Investments held as at 30<sup>th</sup> September 2017:

Borrower	Deposit £m	Rate %	From	To	Notice
Royal Bank of Scotland	2.00	0.65%	31-Jan-17	30-Jan-18	-
Lloyds Bank	2.00	0.55%	03-Apr-17	03-Oct-17	-
Lloyds Bank	2.00	0.55%	03-Apr-17	03-Oct-17	-
Royal Bank of Scotland	2.00	0.63%	05-Apr-17	04-Apr-18	-
Lloyds Bank	2.00	0.55%	10-Apr-17	10-Oct-17	-
Royal Bank of Scotland	2.00	0.67%	11-Apr-17	10-Apr-18	-
Sumitomo Mitsui Banking Corporation Europe Ltd	2.00	0.36%	18-Apr-17	18-Oct-17	-
Lloyds Bank	1.00	0.55%	28-Apr-17	30-Oct-17	-
Nationwide	1.00	0.37%	09-May-17	09-Nov-17	-
Nationwide	1.00	0.37%	31-May-17	30-Nov-17	-
Lloyds Bank	1.00	0.55%	01-Jun-17	01-Dec-17	-
Royal Bank Of Scotland	2.00	0.61%	05-Jun-17	25-May-18	-
Bank of Scotland	2.00	0.36%	30-Jun-17	02-Jan-18	-
Santander UK plc	8.00	0.70%	03-Jul-17	03-Jan-18	-
Royal Bank Of Scotland	2.00	0.6125%	10-Jul-17	29-Jun-18	-
Santander UK plc	2.00	0.70%	13-Jul-17	15-Jan-18	-
Barclays Bank	2.00	0.34%	17-Jul-17	17-Jan-18	-
Lloyds Bank	1.00	0.36%	09-Aug-17	09-Feb-18	-
Bank of Scotland	2.00	0.36%	10-Aug-17	12-Feb-18	-
Coventry BS	2.00	0.35%	05-Sep-17	05-Mar-18	-
Coventry BS	4.00	0.35%	13-Sep-17	13-Mar-18	-
Barclays Bank	3.00	0.31%	13-Sep-17	13-Mar-18	-
Nationwide	2.00	0.30%	13-Sep-17	13-Mar-18	-
Goldman Sachs International Bank	2.00	0.665%	15-Dec-16	-	180 day
Goldman Sachs International Bank	1.00	0.79%	10-Feb-17	-	180 day
Goldman Sachs International Bank	1.00	0.755%	06-Mar-17	-	180 day
Goldman Sachs International Bank	4.00	0.79%	13-Mar-17	-	180 day
Goldman Sachs International Bank	2.00	0.775%	05-Apr-17	-	180 day
MMF – PSDF	4.47	0.18*	-	-	On call
<b>Total</b>	<b>64.47</b>	<b>0.52 (avg)</b>	-	-	-

\* Interest rate fluctuates daily dependant on the funds investment portfolio rate quoted is approximate 7 day average.



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## AUDIT & GOVERNANCE COMMITTEE

28<sup>th</sup> March 2018

### Report of the Director of Finance

#### FINAL ACCOUNTS 2017/18 – ACTION PLAN

##### Purpose

To provide an outline of the corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2017/18 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

##### Recommendations

That:

1. **the target of 25<sup>th</sup> May 2018 for closure of the final accounts and production of the statement for 2017/18 be approved;**
2. **staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);**
3. **CMT receive a fortnightly update until completion of the audit; and**
4. **the Statement be presented to the Audit & Governance Committee on 26<sup>th</sup> July 2018.**

##### Executive Summary

The Accounts and Audit Regulations 2015, require that the 2017/18 Statement of Accounts be produced by 31<sup>st</sup> May 2018, and for them to be audited and approved before 31<sup>st</sup> July 2018.

This year's earlier deadline has been known for some time and as such, the annual plans for the production of the statutory accounts for recent years have been reviewed so that the draft accounts have been achieved in most respects before the new deadline of 31<sup>st</sup> May each year. The 2016/17 Statement of Accounts were prepared by 26<sup>th</sup> May 2017, with an earlier audit (commencing 12<sup>th</sup> June 2017) and the final audited accounts were approved by the Audit and Governance Committee on 27<sup>th</sup> July 2017.

The key issues affecting the achievement of these deadlines are detailed in **Appendix A**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Council's External Auditor's, (Grant Thornton - GT) assessment of the Council's performance within the Annual Audit Letter.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions). It is proposed that CMT receive an update every 2 weeks until completion of the audit.

The information provided (detailed in **Appendix B**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 25<sup>th</sup> May 2018;
- Detailed management quality assurance review by 31<sup>st</sup> May 2018;
- Submission to Grant Thornton (and to Members) on or before 1<sup>st</sup> June 2018;
- Report to Audit & Governance Committee on 26<sup>th</sup> July 2018;
- Latest publish date 31<sup>st</sup> July 2018.

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of its accounts in compliance with statutory requirements.

The Accounts and Audit Regulations 2015 incorporated the changes to statutory reporting deadlines included in the Government Local Audit and Accountability Act 2014. The Act sets out the vision for the new local audit framework, and contains additional measures which are complementary to existing initiatives to increase transparency and enable local scrutiny of public bodies.

The Government's view is that earlier publication of the accounts would enhance authorities' accountability to local residents, and assist their own financial management by providing earlier assurance on the previous year's financial outturn. Local authorities are a significant component of the Government's Whole of Government Accounts, and the current local government timetable is one barrier to bringing forward the publication date of those accounts.

The Government believes that the disparity between the timetables for local government and other parts of the public sector justifies a reconsideration of the current dates.

The two key changes in the regulations are:

- An earlier timetable for the preparation and publication of the statements of accounts for authorities; and
- Reform of the rules on the exercise of the public's rights to inspect the accounting records and to put objections and questions to the auditor.

For 2017/18 the Council has set a target date of 25<sup>th</sup> May 2018 for the completion of draft statement of accounts in line with the new regulations.

### Legal and Risk Implications

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the covalent risk register.

<b>Risk No</b>	<b>Description of Risk</b>	<b>Likelihood Impact</b>	<b>Action Required to Manage Risk</b>
<b>1</b>	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	<b>M H</b>	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
<b>2</b>	Incorrect interpretation of changes in either the Code of Practice or IFRS	<b>M H</b>	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
<b>3</b>	Guidance by CIPFA changing possibly causing delays	<b>M H</b>	Regular review and rescheduling of project timetable
<b>4</b>	Delay in receiving information from external parties / contractors	<b>M H</b>	Ensure regular contact with all concerned and continually monitor completeness of the information provided
<b>5</b>	Inadequate training	<b>L M</b>	Research available training, ensure all relevant staff attend, training budget to be adequate
<b>6</b>	Failure to identify all leases	<b>L M</b>	Ensure staff understand exactly what is involved / process to outline the requirements
<b>7</b>	Key staff leaving	<b>L M</b>	Ensure there are sufficient skills within the team to cover

## **Resource and Value for Money Implications**

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period February through to 25<sup>th</sup> May to ensure completion of the Financial Statements by 31<sup>st</sup> May. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

## **Report Author**

Please contact Lynne Pugh, Chief Accountant extension 272.

<b>Background papers</b>	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2017/18) based on IFRS

## Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

Between completion of the statement in May and the conclusion of the on-site audit in July, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

Following the completion of the 2016/17 audit the only amendments to the Statement of Accounts were minor and were only to enhance the disclosure notes – no change to the primary statements.

To meet the necessary deadlines, the closure process for 2016/17 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2016/17 included:

- the need for corporate ownership of the process;
- reliance on staff in Directorates and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with laid down parameters (i.e. receipt of goods/services **before** 31<sup>st</sup> March);

***Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks within all directorates.***

A planning meeting has already been held with the Audit Lead from Grant Thornton to discuss the draft timetable of the year end process (**Appendix C**) with further meetings arranged prior to the commencement of the onsite audit of the accounts to discuss progress to date.

A detailed year end timetable has been prepared (**attached at Appendix B**) and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next year. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2016/17 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping – together with fortnightly updates to CMT. There is still some room for development to ensure an efficient closedown for 2017/18.

### 2016/17 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A reduced number from previous years but still several manual accruals were received after the deadline and/or following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 31/03/18, Directorates will be asked to ensure that where goods/services have been received the majority of orders are 'goods received' within e-financials, thereby generating 'auto-accruals' on 01/04/18  The minimum level for manual accruals will be £5k (as set by Executive Director Corporate Services). However, should material accruals have been missed (i.e. over £5k) then the Service Accountant must be advised and appropriate action taken	ALL
Related Party Transactions	Again - Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings - for sign off by 30/04/18 at the latest.	Solicitor
External Valuations	Delays / incomplete information from external valuers	Terms of engagement have be re defined with regular meetings arranged so that any issues can be quickly identified and solutions found at an earlier stage	Finance and Assets

A flexible 'teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Director of Finance) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts are cleared regularly. A full review of all working papers has been carried out with key staff during the year in preparation for the 2017/18 closedown.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimus levels for year-end accruals.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a 'get it right first time' approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help inform not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

## Appendix B

Ref	<b>CORPORATE REQUIREMENTS FINAL ACCOUNTS 2017/18</b>	<b>LEAD OFFICER</b>	<b>DEADLINE</b>
1	Temporary Reserve / Retained Fund information	ALL	06/04/2018
2	Review all outstanding orders and delete where necessary	ALL	02/03/2018
3	All "goods receipts" should be on e-financials by 31/03/18, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 02/03/18)	ALL	31/03/2018
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/18.) Refer to year end guidance	ALL	06/04/2018
5	Staff Holiday and Flexi Leave entitlement as at 31/03/18	ALL	06/04/2018
6	Manual accruals to be kept to a minimum, with EDCS approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	06/04/2018
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/18 and information returned to accountancy	ALL	06/04/2018
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/18 will be issued	ALL	06/04/2018
9	IT stock purchases and disposals (hardware and software) information	DTCP	06/04/2018
10	Bad debt information: e-financials Sundry Debtors and overpayments Homelessness and Housing Rents	DF DHH	06/04/2018 06/04/2018
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	Head of Asset Management	Draft by: 01/03/2018 Final Certified by: 01/04/2018
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	06/04/2018
13	HAA SOCH Mortgage principal repayment information	DF	06/04/2018
14	Related Party Transaction information. Requirement to be sent by 21/03/18 - Approach at Committee if delayed	S151 S&MO	06/04/2018
15	Managers confirmation of continued existence and responsibility for assets	ALL	06/04/2018
16	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	06/04/2018



17	Improvement grant reconciliation	Head of Asset Management	06/04/2018
18	Collection fund information (NNDR3)	DF	20/04/2018
19	FRS17 Pension information from SCC Pension Fund	SCC	20/04/2018
20	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Internal Audit	20/04/2018
21	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	20/04/2018
22	Review potential post balance sheet events / impact on accounts	ALL	Up to 31/07/18

## Audit Planning Timetable 2017/18

<b>Date / Deadline</b>	<b>Completion of:</b>	
19/01/2018	1st Interim Visit (5 days) – walkthrough and early testing	
02/02/2018	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc) key dates to be agreed with Audit Commission	
Feb/ Mar 2018	Cipfa / GT Workshops	
12/02/2018	2nd Interim Visit (5 days) – walkthrough and early testing	
28/03/2018	Audit Planning Meeting / requirements	
28/03/2018	Opinion audit plan to Audit & Governance Cttee	
25/05/2018	Draft Statement preparation Quality assurance checks	
<b>31/05/2018</b>	<b>Submission of Accounts (to GT / Members)</b>	
Early June	High Level Audit Plan for 2017/18 Audit confirmed (for planning / management purposes)	
11/06/2018	Engagement Lead review On Site Audit Commences (prepare working papers / reconciliations / quality assurance process) (LG).	Accountants / Key Officers to be available for Auditor questions by appointment
09/07/2018	Weekly Meetings with Audit Manager (including emerging Governance report issues) - issues to date documented in <b>one logical list i.e. no repeated issues</b> On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager (LG)	
<b>Weekly</b>	<b>Draft list of audit amendments / issues received (subject to Engagement Lead review)</b>	
<b>13/07/2018</b>	<b>Final list of audit amendments / issues received (after Engagement Lead review)</b>	
<b>By 13/07/2018</b>	<b>Close out meeting (with Engagement Lead review)</b>	
<b>13/07/2018</b>	Amended Statement of Accounts prepared	
<b>13/07/2018</b>	Audit Findings Report received	
<b>18/07/2018</b>	Audit Report to be circulated via Modgov	
<b>26/07/2018</b>	Audit Findings Report to Audit & Governance Committee / Sign Off	
31/07/2018	Publish at latest	

WEDNESDAY, 28 MARCH 2018

**REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES**

**FINANCIAL GUIDANCE**

**EXEMPT INFORMATION**

None

**PURPOSE**

To seek Member endorsement of the recently reviewed Financial Guidance which forms an important part of the Council's regulatory framework, and to provide an opportunity for Members of the Committee to raise any issues they consider appropriate on the subject.

**RECOMMENDATIONS**

**Members endorse the changes to Financial Guidance.**

**EXECUTIVE SUMMARY**

As part of the core functions under the terms of reference, this Committee is empowered to maintain an overview of the Council's Financial Guidance.

The last review of Financial Guidance was approved by this Committee in March 2016. This review has identified the following changes:

- 5.2 Leasing/rental agreements – the financing options should be considered
- 6.77 The new EU procurement levels from 1/1/18
- 6.15.1 The treatment of VAT on advance payments
- 7.3.1 Receiving goods and services – detailing the receiving of goods and goods receipting
- 7.3.3 Supplier invoices being sent to Accounts
- 8.2.2 IR35 – if rules continue to apply
- 8.3.2 Requirement of post codes for mileage claims

General – change from Chief Executive to Chief Operating Officer and Head of Paid Service.

Other minor changes are tracked within the guidance.

The updated version of Financial Guidance is attached as **Appendix A**.

## **RESOURCE IMPLICATIONS**

None

## **LEGAL/RISK IMPLICATIONS BACKGROUND**

None

## **SUSTAINABILITY IMPLICATIONS**

None

## **BACKGROUND INFORMATION**

None

## **REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services, ex 234

## **LIST OF BACKGROUND PAPERS**

None

## **APPENDICES**

**Appendix A Financial Guidance**

# FINANCIAL GUIDANCE

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# Section A

## Financial Regulation Policy

## **FINANCIAL REGULATION POLICY**

Adopted by Tamworth Borough Council on 22 May 2001.

### **Purpose**

The financial regulation framework within the Council aims to:

- a) Promote best value, service delivery and delivery of the Council's vision;
- b) Provide sound arrangements for all the Council's financial affairs and to be able to demonstrate that proper controls are in place;
- c) Safeguard Members and officers by setting out procedures which meet the Council's expected standards.

Financial regulations are not intended to inhibit creativity but to provide the parameters within which creativity may be exercised. They are intended to guide and support managers and their staff. Financial control at a corporate level is achieved primarily through transparency and accountability. Managers and especially Chief Officers and budget holders occupy key roles. Managers are given appropriate authority to deploy resources in pursuit of agreed objectives. Their activities are expected to adhere to specified standards and they are required to report upon and be accountable for their actions. Those engaged in support functions (for examples, Accountancy) do not themselves directly exert control. Their responsibilities are to support frontline services and to monitor activities. Where necessary they must act as whistle-blowers (See Whistleblowing Policy).

### **Controls**

The financial regulation framework comprises this policy document, financial regulations and contract standing orders approved by Council and detailed guidance issued by the Council's Executive Director Corporate Services, to support these documents. They contain a mixture of:

- a) Responsibilities;
- b) Instructions;
- c) Expected standards of behaviour;
- d) Discretionary powers.

Instructions and responsibilities are clearly set out. All employees and Members are required to comply where they are applicable. The expected standard of behaviour and discretionary powers are guidelines to aid employees and Members in their day to day activities. They cannot cover all potential circumstances. All employees and all Members are therefore required at all times when engaged on Council activities to act reasonably, having regard to this framework, and to act within the spirit of the framework.

A review of the policy and guidance is to be completed annually.

# Section B

## Financial Regulations

## FINANCIAL REGULATIONS

Adopted by Tamworth Borough Council on 22 May 2001.

1. All employees and all Members must at all times when engaged on Council activities act in the interests of the Council as a whole.
2. All employees and all Members must comply at all times with these regulations wherever they apply.
3. All employees and all Members must act reasonably and within the spirit of the financial regulation framework.
4. All relevant financial interests must be declared to the Solicitor of the Council (Monitoring Officer).
5. All activities must be in accordance with:
  - a) Legislation;
  - b) Approved service plans or corporate plans;
  - c) Approved service net revenue budgets or capital programmes;
  - d) Relevant Council policies and adopted codes of practice.

Any material departures (actual or potential) must be reported formally to Members as soon as practicable.

6. Where practicable all activities should be in accordance with accepted best practice.
7. Best value and value for money must be sought in all activities, including the procurement of goods and services.
8. Budgets at an appropriate level of detail must be prepared by the start of each financial year for all activities and units of the Council.
9. Material changes to financial policy or the distribution of resources must be referred to Council for approval.
10. Service managers have primary responsibility for the control and management of all resources of all kinds made available to them.
11. All managers must ensure and regularly check that there is a full set of controls in every system under their management, including an adequate segregation of duties and an assessment of risk in all activities and decisions.
12. All employees must consider the need to seek appropriate views, advice and guidance before embarking on a course of action and particularly on a new course of action. This includes seeking advice from managers in other services, for example consulting the Director Technology & Corporate Programmes on the procurement of information technology or **the Executive Director Corporate**

**Services on the arrangement of leases, rentals or agreements involving the use of assets to or from the authority.**

13. All managers must ensure that all assets and personnel must be adequately secured or protected and appropriate insurance arranged where necessary.
14. Adequate records must be maintained of all transactions in all systems (a complete audit trail) and unrestricted access must be allowed to all assets and records for:
  - a) The Chief Operating Officer;
  - b) The Head of Paid Service
  - c) The Executive Director Corporate Services;
  - d) The Head of Internal Audit Services;
  - e) External Auditors and other statutory inspectors;
  - f) Officers designated by any of the above.

Employees must supply information to those officers on request.

15. Managers must routinely monitor all activities under their control and report on any significant variations from expected standards.
16. Managers must report at regular intervals on performance on planned activities and on financial performance against approved budgets.
17. All employees and all Members must report any suspected:
  - a) Failure in any system;
  - b) Failure to comply with financial regulations;
  - c) Suspected criminal act, including fraud or corruption.

The report should normally be made to the line manager. Full guidance is provided in the Council's [Counter Fraud & Corruption Policy Statement, Strategy & Guidance Notes](#).

Any manager who suspects such an occurrence must take any immediate action necessary to rectify any failure in a control system and report the position to a relevant senior manager, who may include the Chief Operating Officer, Head of Paid Service, Executive Director Corporate Services, Monitoring Officer or Head of Internal Audit Services.

18. The Executive Director Corporate Services shall, with the agreement of the Chief Operating Officer, Head of Paid Service and Solicitor to the Council (Monitoring Officer), issue detailed guidance on procedures to be followed in compliance with these regulations.
19. All employees must comply with any applicable instructions or responsibilities specified in the guidance. In other respects all employees must act reasonably, having regard to the guidance and within the spirit of the guidance.

## CONTRACT STANDING ORDERS

Adopted by Tamworth Borough Council on 22 May 2001.

1. All employees must comply with these standing orders, the relevant regulations relating to Public Contracts and with financial regulations when procuring goods and services.
2. All Directors have primary responsibility for ensuring compliance within their service areas.
3. Best value and value for money must be sought in all procurement activities. Competition must be sought in accordance with issued guidance.
4. Where the value of the goods and services is likely to be £50,000 (cumulative amount) or more the following requirements apply:
  - a) Tenders must be sought from suitably qualified suppliers;
  - b) The supply must be governed by a formal written contract.

The only exception to these requirements shall be where the Cabinet has given authority in order to achieve best value.

5. Reasonable steps must be taken to manage risk throughout the procurement process and employees must have regard to the guidance that is issued for this purpose.
6. All potential suppliers of goods and services must be treated equitably.
7. In all procurement activities, arrangements must be clear regarding:
  - a) The goods or services to be supplied and the supply mechanisms;
  - b) The amount to be paid and the payment mechanisms;
  - c) The rights and responsibilities of all parties.
8. Employees must consider the need to seek appropriate views, advice and guidance before making a decision or embarking on a course of action related to procurement.
9. The Executive Director Corporate Services shall, with the agreement of the Chief Operating Officer, Head of Paid Service and Solicitor to the Council (Monitoring Officer), issue detailed guidance on procedures to be followed in compliance with these standing orders. Such guidance shall include procedures for securing competition, for regulating the manner in which tenders are invited and for managing risk.
10. Employees must comply with any applicable instructions or responsibilities specified in the guidance. In other respects employees must act reasonably, having regard to the guidance and within the spirit of the guidance.

# Section C

## Financial Guidance

## 1. FINANCIAL MANAGEMENT

### 1.1 Introduction

1.1.1 Financial management covers all financial accountabilities in relation to the running of the authority, including the policy framework and budget.

### 1.2 The Full Council

1.2.1 Only the Council will exercise the following functions:

- a) Adopting and changing the Constitution;
- b) Approving or adopting the policy framework, the budget and any application to the Secretary of State in respect of any Housing Land Transfer;
- c) Subject to the urgency procedure contained in the Access to Information Procedure Rules in Part 4 of the Constitution, making decisions about any matter in the discharge of an executive function which is covered by the policy framework or the budget where the decision maker is minded to make it in a manner which would be contrary to the policy framework or contrary to/or not wholly in accordance with the budget;
- d) Appointing the Leader;
- e) Agreeing and/or amending the terms of reference for committees, deciding on their composition and making appointments to them (except where the appointment to a committee is required to give effect to the wishes of a political group) and ensuring that, with the exception of the Mayor, Members are appointed to at least two committees (one of which shall not include the Budget Review Joint Scrutiny Committee; except for executive Members who are appointed to one committee;
- f) Appointing representatives to outside bodies unless the appointment is an executive function or has been delegated by the Council;
- g) Adopting an allowances scheme under Article 2.25;
- h) Changing the name of the areas, conferring the title of honorary alderman, Freeman or freedom of the borough;
- i) Confirming the appointment or dismissal of the Head of Paid Service, Monitoring Officer and S151 Officer;
- j) Making, amending, revoking, re-enacting or adopting bylaws and



promoting or opposing the making of local legislation or personal Bills;

- k) Approving the Council's Code of Conduct;
- l) Approving the Senior Officer Pay Scheme;
- m) All local choice functions set out in Part 3 of this Constitution which the Council decides should be undertaken by itself rather than the executive; and
- n) All other matters which, by law, must be reserved to Council.

**CONTACT:** Solicitor to the Council

### 1.3 The Executive

1.3.1 The Executive will carry out all of the local authority's functions which are not the responsibility of any other part of the local authority, whether by law or under the Constitution.

**CONTACT:** Solicitor to the Council

### 1.4 The Audit & Governance Committee

1.4.1 The Audit & Governance Committee will have the following roles and functions:

- a) Audit Activity
  - Receive, but not direct, internal audit's strategy and audit plan;
  - Consider reports dealing with the management and performance of Internal Audit;
  - Consider the Head of Internal Audit's annual report and opinion, and the level of assurance Internal Audit can give over the Council's corporate governance arrangements;
  - Consider periodic reports from Internal Audit on the main issues arising from their work and "high priority" recommendations not implemented within a reasonable timescale, and seek assurance that action has been taken where necessary;
  - Consider the final external audit Annual Audit and Inspection letter and any other relevant reports to "those charged with governance".
- b) Regulatory Framework
  - Maintain an overview of the Council's Constitution, including Contract Standing Orders, Financial Regulations and Codes of Conduct;

- Consider the internal control environment and the level of assurance that may be given as to its effectiveness, to include the review of the Annual Governance Statement and the recommendation to the Council of its adoption;
  - Satisfy itself that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
  - Monitor the effectiveness of the authority's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management;
  - Monitor the effective development and operation of the corporate governance framework in the Council and to recommend to the Cabinet or the Council, as appropriate, the actions necessary to ensure compliance with best practice;
  - Monitor the effectiveness of the Council's policies and arrangements for anti-fraud and corruption, whistle-blowing, complaints handling, RIPA and Ombudsman investigations.
- c) Accounts
- Approve the annual statement of accounts, external auditor's opinion and reports to Members and monitor management action in response to the issues raised by external audit.
- d) Reports to Council
- Reports in the form of minutes detailing action taken by the Committee and recommendations will be submitted to Council on an annual basis.
- e) Delegated Powers
- The Committee is empowered to deal with the functions detailed above.
- f) Standards of Conduct

This Committee shall exercise all the functions of the Council relating to Codes of Conduct as provided by the Localism Act 2011 except for those functions which under Chapter 7 of the Localism Act 2011 may only be exercised by the full Council.

**CONTACT:** Solicitor to the Council

## 1.5 Overview & Scrutiny Committees

1.5.1 The Overview & Scrutiny Committees general roles are to:

- Review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions including consideration at each meeting of the Forward Plan;
- Prepare an annual scrutiny work plan covering two successive

periods of six months and to make reports and/or recommendations bi-annually to the full Council and/or the executive and/or any policy, joint or area committee in connection with the discharge of any functions;

- Liaise regularly with each other to ensure that there is no duplication between them in respect of scrutiny and review activity;
- Consider any matter affecting the area or its inhabitants;
- Exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or any policy or area committees; and
- Appoint Task and Finish Groups as and when required with no more than two operating at any one time. Normally the Chair and Vice-Chair of the Committee would Chair these groups and there would be an expectation that these groups would co-opt external expertise.

In addition to their general role, each Overview and Scrutiny Committee has a primary scope and specific functions as detailed in the Constitution.

**CONTACT:** Solicitor to the Council

## 1.6 The Statutory Officers

### 1.6.1 Head of Paid Service

The Head of Paid Service will:

- Determine and publicise a description of the overall departmental structure of the Council showing the management structure and deployment of officers as set out in part 7 of the Constitution;
- Report to full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.

### 1.6.2 Monitoring Officer (Solicitor to the Council)

The Monitoring Officer will:

- Maintain an up-to-date version of the Constitution and will ensure that it is widely available for consultation by Members, staff and the public;
- After consultation with the Chief Operating Officer, Head of Paid Service and Chief Finance Officers, the Monitoring Officer will report to the full Council or the executive in relation to an executive function if s/he considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered in accordance with the Local Government & Housing Act 1989;

- Contribute to the promotion and maintenance of high standards of conduct through provision of support to the relevant committee;
- Conduct investigations or take other action into matters referred by the Audit & Governance Committee in accordance with the complaints procedure;
- Ensure that executive decisions, together with the reasons for those decisions and relevant officer reports and background papers are made publicly available as soon as possible and will advise upon issues relating to confidential and exempt information;
- Advise whether decisions of the executive are in accordance with the budget and policy framework;
- Provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all councillors.

### 1.6.3 Chief Finance Officer (Executive Director Corporate Services)

The Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the authority. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Section 151 of the Local Government Act 1972;
- The Local Government Finance Act 1988;
- The Local Government and Housing Act 1989;
- The Accounts and Audit Regulations (Amendment) England 2009;
- Section 73 of the Local Government Act 1985 (c.51);
- The Local Government Act 2003.

The Chief Finance Officer will:

- After consulting with the Chief Operating Officer, Head of Paid Service and the Monitoring Officer, report to the full Council or to the executive in relation to an executive function – and the Council's external auditor if s/he considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully;
- Have responsibility for the administration of the financial affairs of the Council;
- Contribute to the corporate management of the Council, in particular through the provision of professional financial advice;
- Provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all councillors and will support and advise councillors and officers in their respective roles;
- Provide financial information to the media, members of the public and the community.

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the full Council, executive and external auditor if the authority or one of its officers:

- Has made, or is about to make, a decision which involves incurring unlawful expenditure;
- Has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority;
- Is about to make an unlawful entry in the authority's accounts.

Section 114 of the 1988 Act also requires:

- The Chief Finance Officer to nominate a properly qualified member of staff to deputise should they be unable to perform the duties under section 114 personally;
- The authority to provide the Chief Finance Officer with sufficient staff, accommodation and other resources – including legal advice where this is necessary – to carry out the duties under section 114.

**CONTACT:** Solicitor to the Council

## 1.7 Scheme of Delegation

1.7.1 The Local Government Act 1972 as amended provides for a Scheme of Delegation where Council delegates to certain officers powers to undertake functions and duties on behalf of the authority. This delegation is completed annually.

1.7.2 Chief Officers must ensure that they comply with the approved Scheme of Delegation.

**CONTACT:** Solicitor to the Council

## 1.8 Accounting Policies

1.8.1 The Executive Director Corporate Services is responsible for the preparation of the authority's statement of accounts, including Whole of Government Accounts, in accordance with proper practices as set out in the format required by the *Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC)* based on International Financial Reporting Standards, for each financial year ending 31 March.

### 1.8.2 Key Controls

The key controls for accounting policies are:

- a) Systems of internal control are in place that ensure that financial transactions are lawful;
- b) Suitable accounting policies are selected and applied consistently;
- c) Proper accounting records are maintained;

- d) Financial statements are prepared which present fairly the financial position of the authority and its expenditure and income.

#### 1.8.3 Responsibilities of the Executive Director Corporate Services

To select suitable accounting policies and to ensure that they are applied consistently. The accounting policies are set out in the statement of accounts, which is prepared at 31 March each year, and covers such items as:

- a) Separate accounts for capital and revenue transactions;
- b) The basis on which debtors and creditors at year end are included in the accounts;
- c) Details on substantial provisions and reserves;
- d) Fixed assets;
- e) Depreciation;
- f) Capital charges;
- g) Work in progress;
- h) Stocks and stores;
- i) Deferred charges;
- j) Accounting for value added tax;
- k) Government grants;
- l) Leasing/pensions.

#### 1.8.4 Responsibilities of Chief Officers

To adhere to the accounting policies and guidelines approved by the Executive Director Corporate Services.

**CONTACT:** Director of Finance

## 2. GENERAL GUIDANCE

### 2.1 Introduction

- 2.1.1 This guidance aims to help employees in their day to day work. Employees are required to comply at all times with the Council's financial regulations, and this guidance will help to ensure they do.
- 2.1.2 In this guidance there are three levels of requirements:
- i) In some cases the guidance states that employees **MUST** comply with the requirement and therefore 100% compliance is expected;
  - ii) In other cases employees **SHOULD** comply, but there will be times when compliance would not be possible or desirable; and
  - iii) In the remaining cases it is stated that employees **MAY** wish to follow the guidance if it would be helpful, but it is purely at their discretion.
- 2.1.3 Employees must therefore take careful note whether the wording used in each section is **MUST**, **SHOULD** or **MAY**.
- 2.1.4 **If the guidance states a requirement MUST be complied with, employees should consult the Executive Director Corporate Services if there is particular difficulty. The Executive Director Corporate Services has authority to waive compliance and limits where necessary. In the absence of the Executive Director authority is passed to the Director of Finance and then the Chief Operating Officer or Head of Paid Service.**
- 2.1.5 Employees needing help to interpret or apply the guidance should contact their Chief Officers, Head of Internal Audit Services, or Executive Director Corporate Services.
- 2.1.6 The review and updating of Financial Regulations, Standing Orders and Financial Guidance will be completed by the Executive Director Corporate Services.
- 2.1.7 Throughout the guidance, reference is made to Chief Officers. A Chief Officer includes the Chief Operating Officer, Head of Paid Service, Executive Director Corporate Services, the Solicitor to the Council and Directors.

**CONTACT:** Head of Internal Services

### 2.2 Employee Responsibilities

- 2.2.1 Each Chief Officer must ensure that all his/her employees and any other agents acting on behalf of the Council are aware of the sections

of this guidance that relate to their areas of work.

- 2.2.2 Chief Officers may delegate to other employees duties shown in this guidance, but the Chief Officer retains primary responsibility. Where the guidance places a duty on an employee, it is the Chief Officer's responsibility to ensure the existence of adequate procedures, documentation and supervision.

## 2.3 Miscellaneous

- 2.3.1 Chief Officers must ensure that lists of officers authorised to certify or approve orders, payments and records are updated at least on an annual basis. They must advise the Executive Director Corporate Services of changes such as **authorised signatories** leaving and propose new names, specimen signatures and monetary limits (where needed);
- 2.3.2 Any employees required to carry out checks such as **checks of documents** or calculations must sign/initial and date the relevant document (or use an electronic signature on electronic documents). The employee who prepares the document should also sign or initial, and date it.
- 2.3.3 Chief Officers must ensure that all **financial records** are completed promptly and accurately. Any amendment to a financial record or a document required in a payment process, including expense claims, timesheets and official returns must be made in ink. The original entry should be struck through with a single bold line and the correct entry written alongside. It must then be initialled and dated. Correction fluid or tape must never be used.
- 2.3.4 Chief Officers must ensure that all financial records are kept securely, and retained for the periods specified in the appendix attached. At the end of the period the records must be securely disposed of, e.g., by shredding. Arrangements for the disposal of any obsolete or surplus records, including unused items, should be agreed with the Executive Director Corporate Services.
- 2.3.5 All bank accounts relating to the Authority's transactions will be controlled and reconciled by the Executive Director Corporate Services. No other bank accounts are to be used.
- 2.3.6 If an employee is requested to give any **indemnities, guarantees or warranties** on behalf of the Council they must consult the Solicitor to the Council before taking any action.
- 2.3.7 Where there is a suspected fraud or other significant **criminal act**, the Chief Officer must consult the Head of Internal Audit Services or Executive Director Corporate Services on whether/when the Police should be informed. Employees should follow the Council's advice on fraud and corruption ([Counter Fraud and Corruption Policy Statement](#),



[Strategy & Guidance Notes](#)).

- 2.3.8 All employees must comply with the Information Security Policy.
- 2.3.9 All employees must comply with the Officer's Code of Conduct subject to any conflict with professional codes, which in such circumstances the professional obligations subsist over the Officer's Code of Conduct.
- 2.3.10 In order to comply with the International Financial Reporting Standards, managers are required to consult with the Executive Director Corporate Services prior to entering into an agreement on **any rentals, leases or use of assets to or from the authority**, especially where financial/operating leases are entered into as more advantageous financing could be sought.

**CONTACT:** Director of Finance, Head of Internal Audit Services

### 3. RISK MANAGEMENT AND CONTROL OF RESOURCES

#### 3.1 Risk Management

- 3.1.1 Risk Management is the planned and systematic approach to the identification, evaluation and control of risk. The Cabinet shall approve a Risk Management Policy Statement and Strategy for the Council and shall promote a culture of risk management awareness throughout the Council.
- 3.1.2 Key decisions taken must include an assessment of the risk.
- 3.1.3 The Head of Internal Audit Services is the focal point for developing and implementing the Risk Management Strategy throughout the authority. Their role is to advise others. All staff have a duty to co-operate so that risk is effectively managed in their areas, ensuring that all issues that they cannot resolve directly are brought to the attention of their managers.
- 3.1.4 The Corporate Management Team will be the forum where risk is performance managed.
- 3.1.5 Chief Officers are responsible for risk management and must have regard to advice from the Head of Internal Audit Services and other specialist employees (e.g. crime prevention, fire prevention, health & safety, cash handling and internal controls of various types).
- 3.1.6 Chief Officers are responsible for ensuring that regular and appropriate reviews of risk within their departments are completed and entered onto the Corporate Risk Register, held within the Covalent software system. Additional guidance can be sought from the Head of Internal Audit Services on risk management issues.
- 3.1.7 The Audit & Governance Committee will review the management of risk within the Authority.

**CONTACT:** Head of Internal Audit Services

#### 3.2 Insurances

- 3.2.1 The Executive Director Corporate Services is responsible for the arrangement of appropriate insurance cover through external insurance and internal funding. They shall, after such consultation as they think appropriate with other employees, settle all claims within individual policy excesses, and pass on all claims over individual policy excesses to the relevant insurer.
- 3.2.2 Chief Officers shall:
  - a) Give prompt notification to the Executive Director Corporate

Services of all new risks, properties, vehicles, activities, functions, or any other assets which require to be insured and of any alteration affecting existing insurances (for example – safe limits being exceeded, loss of safe keys, temporary disablement of alarms).

- b) Promptly notify the Executive Director Corporate Services in writing of any loss, liability or damage or any event likely to lead to a claim against the Council together with any information or explanation required by them or the Council's insurer's, and inform the police where necessary;
- c) Ensure that all appropriate employees of the Council shall be included in a suitable fidelity guarantee insurance;
- d) Consult the Executive Director Corporate Services in respect of any indemnity which the Council is requested to give;
- e) Ensure that employees, or anyone covered by the Council's insurances, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

3.2.3 It is the responsibility of the Executive Director Corporate Services to:

- a) Maintain a register of all insurance arranged by the Council and the property and risk covered by them;
- b) At least annually, furnish Chief Officers with details of all insurances in force affecting their departments. Each Chief Officer shall review all such insurances, and any risks not insured against, or inadequately insured against, shall be notified immediately to the Executive Director Corporate Services;
- c) Ensure the adequacy of all insurances entered into by contractors of the Council. An employee shall not authorise work to commence by a Contractor until the Executive Director Corporate Services has advised such an employee that the appropriate insurances have been effected to their satisfaction.

**CONTACT:** Operations Accountant

### 3.3 Internal Controls

3.3.1 The Council accepts that controls and control systems must be in place to ensure that it's financial and other activities are carried out in a secure environment, in a manner that complies with the law and that fulfils its stewardship obligations. To achieve this the following key controls and control objectives and systems shall be in place:

- a) Key controls shall be reviewed on a regular basis and the Council

shall make a formal statement annually to the effect that it is satisfied that the systems of internal control are operating effectively which will feed into the Annual Governance Statement. Chief Officers are required to produce an annual statement in respect of the level of assurance on the adequacy of internal controls within their service areas in accordance with the Accounts & Audit Regulations 2011;

- b) Managerial control systems, including defining policies, setting objectives and plans, monitoring financial and other performance and taking appropriate anticipatory and remedial action. The key objective of these systems is to promote ownership of the control environment by defining roles and responsibilities;
- c) Financial and operational control systems and procedures, which include physical safeguards for assets, segregation of duties, authorisation and approval procedures and information systems;
- d) An effective internal audit function that is properly resourced. It should operate in accordance with the principles contained in the Auditing Practices Board's auditing guideline "Guidance for Internal Auditors", "Public Sector Internal Audit Standards" and with any other statutory obligations and regulations and professional standards.

3.3.2 Chief Officers are responsible for ensuring that they manage their processes to ensure that established controls are being adhered to and to evaluate their effectiveness, in order that they can be confident of the proper use of resources, achievement of objectives and management of risks.

3.3.3 They should also review existing controls in the light of changes affecting the authority and establishing and implementing new ones. Chief Officers are also responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.

3.3.4 Chief Officers must ensure that their staff have a clear understanding of the consequences of lack of control.

**CONTACT:** Head of Internal Audit Services

### 3.4 Internal Audit

3.4.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts & Audit Regulations (Amendment) (England) 2011, regulation 6, more specifically requires that "a relevant body must undertake an adequate and effective system of internal audit of its accounting records and of its

system of internal control in accordance with the proper practices in relation to internal control”.

- 3.4.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.4.3 Internal Audit is independent in its planning and operation. The Head of Internal Audit Services shall have direct access to the Head of Paid Service, all levels of management and elected members.
- 3.4.4 Internal Audit will comply with the Public Sector Internal Audit Standards (PSIAS).
- 3.4.5 Internal Auditors have the authority to:
- a) Enter at all reasonable times any Council establishment;
  - b) Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary;
  - c) Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud;
  - d) Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination;
  - e) Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control;
  - f) Access records belonging to third parties, such as contractors or partners, when required and appropriate;
  - g) Direct access the Chief Operating Officer, Head of Paid Service and Members.
- 3.4.6 The Head of Internal Audit Services will prepare the strategic and operational audit plans, which will take account of the relative risks of the audit areas and present this to the Audit & Governance Committee for approval.
- 3.4.7 Chief Officers have the responsibility:
- a) Of reporting any circumstances which may suggest the possibility or irregularity affecting cash, stocks or other property of the Council and any fraud or corrupt activities to the Executive Director

Corporate Services. Further guidance can be found in the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes;

- b) For ensuring that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purpose of their work;
- c) For ensuring that auditors are provided with any information and explanations that they seek in the course of their work;
- d) To consider and respond promptly to recommendations in audit reports; and
- e) For ensuring that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

3.4.8 The Head of Internal Audit Services will develop and maintain a Quality Assurance & Improvement Programme (QAIP) that covers all aspects of the internal audit activity and is designed to evaluate conformance with the PSIAS definition of Internal Audit and Code of Ethics. The QAIP must be an internal on-going assessment report to the Audit & Governance Committee, with an external assessment to be completed in accordance with the frequency as determined by the Audit & Governance Committee (minimum at least every 5 years).

**CONTACT:** Head of Internal Audit Services

### 3.5 Treasury Management

3.5.1 The Council will conduct its Treasury Management Activities in accordance with the provisions laid down in statute and specifically as contained within the Local Government Act 2003.

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:

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 and practices to full Council and for the execution and administration of treasury management decisions to the Executive Director Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
  4. This organisation nominates Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 3.5.2 The Executive Director Corporate Services may report to Council at any time, as they consider necessary, upon matters relating to treasury management activities.
- 3.5.3 The Executive Director Corporate Services shall ensure that all treasury management transactions are recorded and that there is an effective division of duties between operations.
- 3.5.4 All securities which are the property of or in the name of the Council or its nominees shall be held in the custody of the Solicitor to the Council, except in the case of externally managed funds which shall be held by an independent custodian approved by the Executive Director Corporate Services.
- 3.5.5 Loans must not be made to third parties and interests must not be acquired in companies, joint ventures or other enterprises without the approval of the Cabinet, following consultation with the Executive Director Corporate Services.

**CONTACT:** Director of Finance

### 3.6 Prudential Code

- 3.6.1 Interlinked with the CIPFA Code of Practice for Treasury Management is the Prudential Code for Capital Finance in Local Authorities which plays a key role in capital finance to support Local Authorities in taking their decisions.
- 3.6.2 The Council is required by regulation to have regard to the said code

when carrying out its duties under part 1 of the Local Government Act 2003.

- 3.6.3 The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators. This is done by the full Council.
- 3.6.4 The Executive Director Corporate Services will be responsible for ensuring that all matters required to be taken into account are reported to the full Council for consideration, and for establishing procedures to monitor performance.
- 3.6.5 In setting or revising their prudential indicators, the Council is required to have regard to the following matters:
- Affordability, e.g., implications for Council Tax/housing rents, including consideration of the impact for all resources (capital and ongoing revenue costs);
  - Prudence and sustainability, e.g., implications for external borrowing and whole life costing;
  - Value for money/potential 'spend to save' schemes, option appraisal;
  - Stewardship of assets, e.g., asset management planning;
  - Service objectives, e.g., strategic planning;
  - Risk and uncertainty needs to be considered;
  - Practicality, e.g., achievability of the forward plan.
- 3.6.6 The Executive Director Corporate Services is required to establish procedures to monitor both performance against all forward looking prudential indicators and the requirement that Council has adopted the CIPFA 'Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes'. The Executive Director Corporate Services also needs to establish a measurement and reporting process that highlights significant deviations from expectations.
- 3.6.7 When considering capital spending Chief Officers must have regard to the capital process guidance, which includes the requirement to complete a capital appraisal. This appraisal ensures that consideration is given to:
- Full capital cost, including regard to external funding considerations;
  - The revenue implications associated with the project – including



costs and any additional income generation;

- Any implications with regard to the prudential code/use of prudential borrowing (including payback periods etc);
- Staffing implications;
- Alternatives which could be considered e.g., leasing;
- Consultation with other officers/organisations;
- Project management and planning in order to ensure delivery in line with approved timescales;
- Evaluation of the project outcomes;
- An assessment of the risks associated with the project – a full risk assessment is required;
- The contribution the project makes towards the achievement of the Council's corporate priorities, corporate capital strategy objectives and Government priorities.

3.6.8 In order to ensure that over the medium term, net borrowing will only be for capital purposes, the Council should ensure that net external borrowing does not, except in the short-term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

3.6.9 The Council shall set and monitor against the specified prudential indicators for capital expenditure, external debt and treasury management in accordance with the due processes to be followed, the matters required to be taken into account, affordability, prudence and in accordance with the definitions specified.

**CONTACT:** Director of Finance

## 4. REVENUE BUDGETS AND EXPENDITURE

### 4.1 Introduction

The key controls for budgets and medium-term planning are:

- a) Specific budget approval for all expenditure;
- b) Budget managers/Heads of Service to be consulted in the preparation of the budgets for which they will be held responsible and accept accountability within delegations set by the executive for their budgets and the level of service to be delivered;
- c) A monitoring process is in place to review regularly the effectiveness and operation of budget preparation and to ensure that any corrective action is taken.

### 4.2 Incurring Expenditure

4.2.1 Chief Officers and Heads of Service are authorised to incur expenditure:

- a) In accordance with approved Council and service policies; and
- b) In line with the service net revenue budget.

Chief Officers and Heads of Service are authorised to make budget changes.

### 4.3 Budget Monitoring and Variances

4.3.1 The service net revenue budget is the key point for budget monitoring and reporting. The detail contained within the budget book is mainly to assist budget holders manage their budgets. Strict compliance with the detailed budget is not necessarily expected. **The main requirement is that Chief Officers and Heads of Service must seek approval for any change in approved service policy, standards or delivery, or other material departure from the service plan.**

4.3.2 Chief Officers and Heads of Service must monitor their budgets regularly throughout the year. The Director of Finance and Accountants will provide suitable regular reports giving details of actual expenditure and income compared to the budget. They will notify the Chief Officer/Head of Service of any significant variance which appears to require further attention.

4.3.3 The Chief Officer or Head of Service is responsible for dealing with actual or likely variances from budget and must take appropriate action. For example, they may decide to:

- a) Freeze spending on a discretionary item such as furniture and equipment to deal with a net overspend; or
- b) Meet an overspend under one expenditure heading from one or

- more actual or planned underspends elsewhere (see below); or
- c) Meet an overspend from increased income (within limits set below);  
or
- d) Do nothing in the case of a windfall increase in income.

In the case of b) & c) the manager should consider whether to adjust the budget through a virement (see below).

4.3.4 There is no limit for budget transfers within individual expenditure headings (cost centres) if there is no change in service policy, no detriment to service standards or delivery and no material departure from the service plan.

4.3.5 Where a significant variance is expected (even after taking appropriate action) the Chief Officer or Head of Service must report the circumstances formally to Members as soon as practicable. The report should indicate the options open to Members and their implications. For example in the case of an overspend it might suggest:

- a) Reducing activity levels, with an impact on service standards, to reduce expenditure; or
- b) Increasing activity on income-generating services or increasing prices to increase income; or
- c) Providing additional resources from an alternative source, e.g. balances.

4.3.6 The report should take into account the likely position in future years as well as the current year.

**CONTACT:** Director of Finance

#### 4.4 Virement

4.4.1 A virement is defined as “the planned transfer of a budget approved for one purpose for use on a different purpose to that originally intended or approved”. A virement does not create additional budget; it changes the purpose for which the budget will be used compared to that originally intended.

4.4.2 A Chief Officer or Head of Service may authorise the transfer of up to £50,000 of budget (this is a cumulative amount i.e., in total for each cost centre for the year and not per transaction) to or from any individual expenditure heading (cost centre) within their service. The Director can approve a virement (up to £50,000) across budgets within service activities within their Directorate and between Directorates with the approval of the Executive Director Corporate Services. The Chief Officer or Head of Service must notify the Executive Director Corporate Services in writing of all virements. **No further approval is needed if**

**there is no change in service policy, no detriment to service standards or delivery, and no material departure from the service plan.**

4.4.3 The Executive Director Corporate Services also has authority to approve virements in excess of the above £50,000 limit – up to a total virement of £100,000 (this is a cumulative amount ie. in total for each cost centre for the year and not per transaction).

4.4.4 **Virements can only be applied to direct expenditure and not to support service costs, capital charges and indirect income (ie. recharges).**

4.4.5 Virements which fall outside of the above criteria will require Cabinet approval.

#### 4.4.6 **Specific Contingency Budget**

Where a budget is identified as contingency and is intended for allocation during the year, its allocation will not be treated as a virement, provided that:

- a) The amount is used in accordance with the purposes for which it has been established;
- b) The Cabinet has approved the basis and the terms, including financial limits, on which it will be allocated. Individual allocations in excess of the financial limits must be authorised by Cabinet;
- c) The release of funding for specific identified contingency items is delegated to the Corporate Management Team in consultation with the Leader of the Council (Scheme of Delegation log);
- d) The release of the contingency is approved by the S.151 Officer (Executive Director Corporate Services).

#### 4.4.7 **Capital Contingency Budget (Block Allocation)**

- a) Where amounts are required for transfer from Specific Contingency/General Contingency then Cabinet approval must be obtained, including approval of a capital appraisal form detailing the financial and organisational impact of the scheme;
- b) Please note that the impact of drawing from this contingency budget has to be highlighted to Members in order for them to make an informed decision;
- c) These reports will also require S.151 Officer (Executive Director Corporate Services) sign off (due to their impact on the 5-year budget/ balances/forecast).

**CONTACT:** Director of Finance

## 4.5 **Income Generation**

4.5.1 Income may be received above the budget level in a number of circumstances. The potential uses for the extra income (within the limits set below) depend on the situation:

- a) Pure windfall income, which is received without any additional service activity or conditions is not available for use by the Chief Officer or Head of Service and they should not normally authorise any additional expenditure from that windfall. The main exception would be to meet an unavoidable overspend. In other cases the excess income would return to Council balances;
- b) Where an increase in demand results in increased service workload, additional income may be used to offset the impact of the extra workload. For example the manager may appoint temporary employees or purchase additional or improved equipment to improve efficiency or working conditions;
- c) Where the Chief Officer or Head of Service expects an increase in income to result from increased activity, the Chief Officer or Head of Service may approve additional expenditure where it will generate enough income to cover the costs;
- d) Where 'ring fenced' grant income is received which requires specific actions/spending, the Chief Officer or Head of Service may approve additional expenditure, where there is no net additional cost to the Council.

4.5.2 Chief Officers/ Heads of Service have authority to approve budget adjustments for excess income up to a limit of £50,000 per occasion. The excess income and additional expenditure must be reported explicitly within the monthly budget monitoring variance analysis;

4.5.3 The Executive Director Corporate Services also has authority to approve budget adjustments in excess of the above £50,000 limit – up to a total budget adjustment of £100,000 per occasion;

4.5.4 Any budget adjustments above this amount will require Chief Officers and Heads of Service to ask Members for formal budget adjustment to reflect the revised position.

**CONTACT:** Director of Finance

## 5. CAPITAL BUDGETS AND PROJECTS

### 5.1 Definition of Capital

5.1.1 Capital projects include the purchase or construction of assets such as buildings, vehicles and computer equipment and major repairs/refurbishment, which extend the life of an asset or increase its value. In each case the Council must get the benefit from the new or refurbished asset over more than one year. The total cost of the project must also exceed £10,000. This figure includes amounts spent on design and supervision and other fees for professional services (whether provided by Council employees or external contractors). Spending of up to £10,000 on a single project should be treated simply as revenue (except where it forms part of a minor works programme which exceeds £10,000).

5.1.2 The [Capital Process Guidance](#) is included within the Corporate Capital Strategy and can be found on the intranet.

**CONTACT:** Director of Finance

### 5.2 Leasing/Rental Agreements

5.2.1 The nature of financing should be considered prior to going to the market and options considered at that point.

5.2.2 Chief Officers and Heads of Service must consult the Executive Director Corporate Services before entering into **any** leasing or rental agreement to or from the Authority in order to comply with the International Financial Reporting Standards.

5.2.3 **All** lease/hire of equipment/rental agreements, for the use of assets that the Authority has not bought, must be signed by the Executive Director Corporate Services.

5.2.4 Obtaining an asset through a finance lease is regarded as capital expenditure and as such it must be included in the capital programme.

**CONTACT:** Director of Finance

### 5.3 Authority to Incur Capital Spend

5.3.1 The law requires Councils to treat capital spending differently from revenue so different authorisation procedures are used. Chief Officers and Heads of Service are authorised to spend money on a capital project only if the project is included in the capital programme, or for minor projects, they have sufficient revenue funds. In either case special rules apply.

- 5.3.2 The Executive Director Corporate Services is responsible for ensuring that a capital programme is prepared on an annual basis for consideration of the full Council's policy framework.
- 5.3.3 All capital projects and spending must comply with the guidance on Procurement and Contracts. Expenditure must be in line with the approved scheme (Capital Programme) as agreed by Council and will require an adequately detailed Capital Appraisal Form including any revenue implications arising from the scheme. The Appraisal Form should identify any key processes/deliverables to be incurred with appropriate financial information (i.e., sub projects within the main programme). The detail of projects above £50,000 must comply with the Procurement Strategy. In the event that as part of an approved scheme, there is a contingency amount in excess of £20,000, then prior approval must be obtained from Cabinet for the spend to go ahead. Chief Officers or Heads of Service must then notify the relevant portfolio holder of the preferred tenderer. The Procurement and Contracts Section gives further guidance.
- 5.3.4 If a Chief Officer or Head of Service wishes to incur minor new capital spend (i.e. between £10,000 and £50,000) from a revenue budget the Executive Director Corporate Services must first be informed in writing and there must be no change in service policy, or detriment to service standards or delivery. If these conditions are not met, Council must be asked to add the project to the capital programme.
- 5.3.5 Council have delegated authority to Cabinet to approve/add new capital schemes to the capital programme where grant funding is received and there is no net additional cost to the Council.
- 5.3.6 Some Chief Officers and Heads of Service are responsible for several capital projects at the same time. Where any single scheme needs up to £50,000 above its capital allocation to complete it, the Chief Officer or Head of Service may approve a virement for the additional spend provided other schemes within his/her control will under-spend by at least that amount.
- 5.3.7 A Chief Officer or Head of Service may authorise the virement of up to £50,000 of budget per occasion to or from any individual scheme within their service. The Director can approve a virement (up to £100,000) across budgets within service activities within their Directorate and between Directorates **with** the approval of the Executive Director Corporate Services. The Chief Officer or Head of Service must notify the Executive Director Corporate Services in writing of all virements. **No further approval is needed if there is no change in service policy, no detriment to service standards or delivery, and no material departure from the service plan.**
- 5.3.8 Where 'ring fenced' grant income is received for an existing scheme which requires specific actions/ spending, the Chief Officer or Head of Service may approve additional expenditure up to £50,000 (with a

further £50,000 only with the Executive Director Corporate Services approval), where there is no net additional cost to the Council. Spending of grants which fall outside of the above criteria will require Cabinet approval.

**CONTACT:** Director of Finance

## 5.4 Monitoring

- 5.4.1 Chief Officers and Heads of Service are responsible for delivering capital projects within agreed timescales and within budget. Chief Officers and Heads of Service must therefore continuously monitor both the progress of projects and spend against budget.
- 5.4.2 The Executive Director Corporate Services and Service Accountants will provide suitable regular reports giving details of actual expenditure and income compared to the budget. They will notify the Chief Officer and Heads of Service of any significant variance which appears to require further attention.
- 5.4.3 Chief Officers and Heads of Service are responsible for dealing with actual or likely variances from budget or from the project delivery plan.
- 5.4.4 Where a significant variance is expected (even after taking appropriate action) the Chief Officer and Heads of service must report the circumstances formally to Members as soon as practicable. The report should indicate the options open to Members and their implications. For example in the case of a projected overspend it might suggest amending the specification to come within budget.
- 5.4.5 Outstanding expenditure relating to the previous financial year should be notified to the Executive Director Corporate Services as soon as possible after 31<sup>st</sup> March in line with the timetable determined by the Executive Director Corporate Services.
- 5.4.6 It is required that a post implementation review (PIR) is completed for all capital projects where learning is identified which could assist future projects or where there is a significant financial or political impact. The Asset Strategy Group will decide, on an annual basis, the projects that require a PIR to be completed. Results of the review should be circulated to CMT and, if appropriate Cabinet and/or Scrutiny Committees. More detailed guidance on the Post Implementation Review process can be found in the Capital Process Guidance.

**CONTACT:** Director of Finance

## 5.5 External Funding

- 5.5.1 External funding is potentially a very important source of income, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the authority. Local



authorities are increasingly encouraged to provide seamless service delivery through working closely with other agencies and private service providers. Funds from external agencies such as the National Lottery provide additional resources to enable the authority to deliver services to the local community. However, in some instances, although the scope for external funding has increased, such funding is linked to tight specifications and may not be flexible enough to link to the authority's overall plan.

- 5.5.2 Where external funding may be available for a project in the capital programme the Chief Officer or Head of Service is responsible for submitting any bid required. Consultation with the Executive Director Corporate Services is required before submission.
- 5.5.3 Any bid must match the capital programme approval in all material respects. If the bid differs materially from the capital programme or the project is not in the capital programme, then should the bid be successful, Council approval must be obtained to add the project to the capital programme.
- 5.5.4 Where a project relies on external funding, it must not commence until final written confirmation has been received that the external funding will be provided.
- 5.5.5 If the external funding approval differs materially from the bid, Council approval must be received before any spending on the project is committed. The Chief Officer or Head of Service should seek advice from the Executive Director Corporate Services as to whether any difference should be regarded as material.
- 5.5.6 Council has delegated authority to Cabinet to approve/ add new capital schemes onto the capital programme where grant funding is received and there is no net additional cost to the Council.
- 5.5.7 Claims for payment must be made as soon as practicable. The budget manager who submitted the bid is responsible for submitting the claim by the due date, unless otherwise agreed with the Executive Director Corporate Services.
- 5.5.8 The Chief Officer or Head of Service should ensure that the project progresses in accordance with the agreed project delivery plan and that all expenditure is properly incurred and recorded.
- 5.5.9 Copies of all documentation such as bids, approvals, claims and correspondence must be sent immediately to the Executive Director Corporate Services to ensure that all funding notified by external bodies is received and properly recorded in the authority's accounts and to ensure that audit requirements are met.
- 5.5.10 The Chief Officer or Head of Service must ensure that the key conditions of funding and any statutory requirements are complied with

and the responsibilities of the accountable body are clearly understood. Funds should only be acquired to meet the priorities approved in the policy framework by the full Council. Any match-funding requirements should be given due consideration prior to entering into long-term agreements and future revenue budgets should reflect these requirements.

- 5.5.11 Further details on external funding can be found in the External Funding Strategy.

**CONTACT:** Director of Finance

## 5.6 Disposal of Capital Assets

- 5.6.1 Disposals require the same level of approval as capital spend. Chief Officers and Heads of Service should therefore propose any necessary capital disposals for inclusion in the capital programme. All disposals are required to be approved by the Budget Review Group and Cabinet.
- 5.6.2 Chief Officers and Heads of Service must obtain the best possible price for disposals, in accordance with section 123 of the Local Government Act 1972 (where relevant), which will normally be the market value. Chief Officers and Heads of Service must consult with the relevant specialist officer before commencing a disposal, e.g. the Director of Assets & Environment for land or buildings and the Director of Technology & Corporate Programmes for IT equipment. In most cases the specialist manager should assume responsibility for the disposal.
- 5.6.3 The disposal of low value items is dealt with in the Assets and Equipment chapter.

**CONTACT:** Director of Finance

## 6. PROCUREMENT AND CONTRACTS

### 6.1 Introduction

- 6.1.1 This section supplements the Council's contract standing orders and Procurement Strategy and Procurement Guidance and Procedures on the Intranet (which provide more detailed guidance and requirements on purchasing, procurement and contracting processes).
- 6.1.2 Each Chief Officer/Head of Service is under a duty to "Promote greater efficiency and value for money in all activities including the procurement of goods and services" (Financial Regulation 7).
- 6.1.3 The essence of the system, which must be maintained by all Chief Officers/Heads of Service is to demonstrate that:
- a) Best value for public money spend is achieved;
  - b) No favouritism is shown to any potential supplier; "brand names" or any potential discriminatory requirements/standards are not used;
  - c) The highest standards of integrity are consistently applied;
  - d) There is compliance to legal requirements;
  - e) Non-commercial considerations do not influence any contracting decision;
  - f) Corporate and departmental aims and policies are supported;
  - g) Compliance with the Procurement Strategy is maintained; and
  - h) The arrangements for supply and payment are clear to all parties.
- 6.1.4 This guidance applies to all procurement and purchasing activities undertaken for, or by, the Council including cases where the Council either acts as an agent (e.g. work for Staffordshire County Council) or employs an agent such as an external architect or clerk of works, or acts on behalf of other organisations and bodies working in partnership (for example the Local Strategic Partnership and Crime & Disorder Partnership).
- 6.1.5 Values quoted in this guidance should be considered as the estimated spend on an item, service, or material for the period over which the known requirements exist, or the total value of a one-off supply. Consideration should be given to the "whole life cost" which includes, for example, the cost of associated consumables required, cost of disposal/ decommissioning, etc. In some cases, it is clear that a grouping together of items is both sensible and within the spirit of the regulations. For example, it is appropriate to consider the purchase of desks and chairs as office furniture rather than as individual items. The guidance applies to both revenue and capital items. For more significant items of expenditure it is reasonable to consider the sum total of the Council's requirements for works, services and supplies across Directorates when assessing the estimated value and whole life costs of these requirements.

- 6.1.6 All IT purchases (software and hardware) must be approved by the Director of Technology & Corporate Programmes.
- 6.1.7 All potential contracts and partnership agreements (whether formal or informal) which utilise the handling of the Council's data/information (paper based or electronic) by a third party must ensure formal, contractual provision is made outlining the obligations placed on that third party. The Corporate Information Security Manager must be consulted in any such case at the outset of the process.
- 6.1.8 All proposals, developments, capital works, contracts and changes affecting the information we use, hold and process must have the agreement of the Director of Technology & Corporate Programmes or deputy, and, where appropriate, be monitored for compliance.
- 6.1.9 All suppliers, partners, third-party organisations and contractors with whom we have/will have a relationship by which they have access to or process (as defined by the Data Protection Act 1998) personal or commercially sensitive information belonging to or under the control of the Council will be required to comply with the relevant principles (e.g. Cyber Security Essentials/ISO27001) either by production of certification or by submission of a statement of compliance. In addition, they must acknowledge and agree their responsibilities and obligations to the Council in relation to Principle 7 of the Data Protection Act (1998) in relation to Information Security. Any request to waive these requirements requires the agreement of both the Security Management Group and Cabinet. Implementation of these arrangements is immediate in relation to all contracts not yet let, Invitation to Tenders not yet published, agreements not yet implemented, or proposed contract extensions. At the end of the contract, all information used by the contractor but belonging to the Council will be returned to the Council. Chief Officers are responsible for ensuring that the contractor provides assurance that they do not hold any personal or commercially sensitive information – either manually or electronically, that belongs to the Council. Advice can be obtained from the Corporate Information Security Manager.
- 6.1.10 Any consultants, agents, contractual partners used by the Council shall be appointed in accordance with the requirements of Contract Standing Orders and Financial Guidance. Where the Council uses consultants to act on its behalf in relation to any procurement, the Chief Officer shall ensure that the consultants also comply with these requirements. No consultant shall make any decision on whether to award a contract or to whom a contract should be awarded. The Chief Officer shall ensure that the consultant's performance is monitored.
- 6.1.11 Some definitions of terms used and a list of officers who can provide assistance are shown at 6.17 and 6.18.

- 6.1.12 Quotations/ estimates must be obtained for one-off spends of up to £4,000, these may be verbal for up to £1,999. Any spend between £2,000 and £3,999 must have a minimum of 3 written quotations/ estimates.

All tenders or invitations to quote of £4,000 or above, for works, services, supplies, utilities and design contracts, will be tendered electronically through the e-tendering system, in-tend. Where a tender warrants a detailed specification, then the quick quote process must be used. All transactions associated with such invitations to quote or tenders above £4,000 will be conducted via the e-tendering system from the initial advertisement, expressions of interest, invitation to tender/quote or negotiate submission of quotations/tenders, quotation/tender opening, contract award and subsequent contract management.

The Procurement Team must be notified in writing at least six months before the commencement of any tendering exercise with an expected value of £50,000 or over and will give direction as to the procurement route to be followed. This notification will include information for both capital and revenue expenditure proposals as is required under the capital appraisal process, so that an accurate assessment of the requirements can be made. Where the procurement is likely to exceed EU thresholds the period of notice will be at least six months in order to allow compliance with EU timescales.

- 6.1.13 Electronic or e-auctions via the InTend system will be made available to service areas by agreement with the Director of Finance. E-auctions can be a useful way of securing savings and efficiencies and are best applied where the product or service is capable of being specified accurately and can be provided by a range of suppliers with a common understanding of what the requirement is, for example, paper, IT hardware and consumables, and utilities. E-bidding is another variant, where “once only” bids are sought electronically.
- 6.1.14 The e-tendering/quotation system includes a browser based supplier website where any supplier wishing to register an interest in doing business with the Council can do so electronically, with a password protected, secure area of the website for them to fill out their company details (this includes information on their company, address, contact points, business types, banking, insurance, certificates, accreditation and other details). The supplier is able to update these details whenever it logs on to the e-tendering system. This, together with the introduction of corporate contracts, and partnering arrangements with suppliers, supersedes the practice of having and maintaining an “Approved Supplier” list or lists.
- 6.1.15 Chief Officers should ensure that current and potential suppliers register their company details on the supplier website which can be found at the following internet site <https://in-tendhost.co.uk/tamworthbc>. Relevant

suppliers are also able to use Constructionline to maintain and update key corporate information.

- 6.1.16 New business opportunities are to be advertised on the website via the Procurement Team and therefore must be notified in accordance with the timescales noted above.
- 6.1.17 Where Tamworth BC is conducting a tendering or quotation exercise in partnership with another public or private body (for examples joint procurement of services) then the e-tendering system can be used as part of the normal procurement processes followed by the Council by agreement with the Director of Finance.
- 6.1.18 Where the Council is funding/assisting a body such as the Local Strategic Partnership or the Crime and Disorder Partnership and there is an expectation on the part of the Council to ensure probity in the use of monies on projects which are publicly funded/routed via Tamworth BC then the e-tendering system can be used as part of the assistance provided by the Council by agreement with the Director of Finance.

**CONTACT:** Corporate Procurement Officer

## 6.2 Summary of Requirements

- 6.2.1 The following tables show the action needed at differing values. Further detail follows. Before initiating any tender/quote process officers should review the Contract Register to see if there are any comparable contracts or agreements in place which must be used unless there is an auditable reason not to.
- 6.2.2 Please see overleaf.

Value	Contact Other Officers	Process for Obtaining Prices	Contract Issues	Supply Process
£0 - £3,999	Should contact Procurement Team if similar expenditure is likely to be incurred by others to check if a corporate contract is in place or desirable	<b>Must</b> obtain at least 3 quotations or estimates – these may be verbal up to £1,999. £1,999 is cumulative within the financial year.	No requirement for formal written contract. Standard form may be considered in some cases and an annual supply arrangement may be appropriate	Must be via official order generated by General Ledger or as per contract
£4,000 - £9,999	<b>Must</b> consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Tendering <b>must</b> be considered, alternatively, written quotations must be obtained using Quick Quote (QQ) on the in-tend system using the correct current invitation to quote template. The authorisation form <b>must</b> be completed and returned to the Procurement Team	Condensed contract format to be used and standard quotation documents must be used especially where access to personal/confidential information is involved or warranties or indemnities are given/received	Must be via official order generated by General Ledger or as per contract
£10,000 - £49,000	<b>Must</b> consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Advice from Procurement and, where appropriate, Legal <b>must</b> first be obtained. Tendering <b>must</b> be considered. <b>Must</b> use the standard quotation/ tender documents. The Authorisation Form <b>must</b> be completed and returned to the Procurement Team	Depending on the complexity, risk and value, a written contract is required, subject to consultation with the Procurement Team and Legal. Above £20,000 a formal written contract which can be signed by the relevant CMT member <b>MUST</b> be used. Consult with Procurement Team as to the relevant type of contract	Must be via printed official order generated by General Ledger or as specified in the contract

Value	Contact Other Officers	Process for Obtaining Prices	Contract Issues	Supply Process
£50,000 and over	<b>Must</b> advise Procurement Team in writing as soon as the spend requirement is identified – this is at least a 6 month period and where spend is going to exceed the EU threshold, a longer period of notice would be expected – the Procurement Team must be contacted for guidance as to the appropriate procurement route to follow. The Procurement Team may direct and/or administer the whole process	Member endorsement of contract brief required. Use of the Invitation to Tender Documentation <b>must</b> be used. The Authorisation Form <b>must</b> be completed and returned to the Procurement Team	<b>Must</b> be a formal written contract duly approved by the Solicitor to the Council and executed as a Deed under Seal	As specified in formal contract



- 6.2.3 Any of the guidance may be applied for purchases at a lesser value. For example, it may be appropriate for certain low value requirements to be purchased by inviting tenders. Similar procedures to those outlined should then be followed. (The guidance does not necessarily cover such situations in full).
- 6.2.4 If there is an existing contract available for the required goods, services or works, it must be used in the first instance. Some contracts let by other public authorities may also be available (see 6.3.1).
- 6.2.5 A list of corporate contracts can be found on Covalent. If it is intended not to use a corporate contract, the Procurement Team must be consulted at the outset.
- 6.2.6 A suitable contract specification must be completed in all cases. The level of detail required within the specification will be commensurate with the complexity, risk and value of the purchase.
- See the following section on Alternative Purchasing Arrangements. Advice in either case is available from the Procurement Team.
- 6.2.7 Chief Officers **must** maintain a register to record all quotations and estimates (including verbal estimates) up to £3,999. Copies of written versions must be securely retained, and entries should be signed and dated by both the recording officer and the authorising officer. The details contained in any quotation or estimate must not be made known to any other party. All quotations and estimates received should be retained in the register until the Accounts have been signed off for that financial year. The Quick-Quote and Contract registers on Covalent will be used to record details of tenders/contracts awarded.
- 6.2.8 The most economically advantageous tender must be accepted. Advice on how to determine this can be sought from the Procurement Team.

**CONTACT:** Corporate Procurement Officer

**Further Guidance**

### 6.2.9 Under £4,000

Different practices will apply at different levels:

- The petty cash procedure may be used for very minor items. See the section on cash advances etc;
- The three estimates for a supply up to £1,999 may come from telephone contact with companies advertising in the local paper, trade journal or yellow pages;
- Verbal quotations/estimates may only be sought for goods/services up to a cumulative value of £1,999 within the financial year.

### 6.2.10 £4,000 - £9,999

The Chief Officer must contact the Procurement Team if further similar expenditure is also likely to be incurred by themselves or others to check if a corporate contract is in place or is desirable. Tendering must be considered and the Procurement Team will advise on the suitability of tendering. Alternatively, written quotations must be obtained by using Quick Quote on the in-tend system and using the correct Invitation to Quote template/specification. The Authorisation Form must be completed and authorised, and received by the Procurement Team, and a tender/ QQ reference number established, before the procurement process is initiated on in-tend.

- 6.2.11 The standard form of contract is particularly recommended in situations where protection against a poorly performing supplier is important or where the procurement carries particular risks e.g. where the supplier would have access to confidential/personal information, or where price is not the only criteria being considered.

### 6.2.12 £10,000 - £49,999

The Chief Officer should appoint a Project Officer with overall responsibility for the procurement. The Procurement Team must be advised in writing in all cases and guidance sought on the appropriate procurement route to be followed. Tendering must be considered and the Procurement Team will advise where tendering is not necessary. Where agreed with the

Procurement Team, written quotations may be obtained via Quick Quote on the in-tend system using the correct Invitation to Quote template. All tenders/ QCs with an estimated value exceeding £25,000 **must** also be advertised on the Crown Commercial Service's Contracts Finder e-procurement portal. The Authorisation Form must be completed and returned to the Procurement Team, and a tender/ QC reference number established, before the procurement process is initiated on in-Tend. A written specification must be included on the Invitation to Quote/ Tender document. *Formal Terms and Conditions of Contract* must be used.

#### 6.2.13 £50,000 plus

The Chief Officer must appoint a Project Officer with overall responsibility for the procurement. The Procurement Team must be advised in writing in all cases, at the initiation of the project, and guidance sought on the appropriate procurement route to follow. This is to enable an assessment of whether or not the European Union regulations come into play and to ensure the most appropriate procurement solutions are sought. Where the EU threshold is expected to be exceeded, the Procurement Team should be contacted in the first instance. A supply for an individual Service area may be below the threshold, but similar needs in another Service area may mean EU aggregation rules apply. EU procedures **must** be followed if they apply, and, due to their complexity, the Procurement Team **must** be involved in such projects. A formal tender exercise is compulsory, as is a formal written contract.

The Solicitor to the Council must have a minimum of 2 weeks notice to consider the draft contract before engrossment.

**CONTACT:** Corporate Procurement Officer

### 6.3 **Alternative Purchasing Arrangements**

6.3.1 Other organisations in the public sector are also under a duty to secure value for money in terms of purchasing. In the right circumstances and where provision has been made for the agreement to be used by other authorities, i.e. where it will provide

best value and is consistent with other key requirements such as on contract terms and conditions, managers may use their purchasing arrangements.

- 6.3.2 These other organisations may include Crown Commercial Services, ESPO, YPO, Central Government (via their G-Cat or S-Cat, and L-Cat processes), local authorities such as Staffordshire County Council and bodies such as the National Health Service. Chief Officers/Heads of Service may contract directly with such suppliers but **must** consult with/involve the Procurement Team because of potential issues such as ensuring the agreement has been conducted in full accordance with Public Contract Regulations 2015 for use by other authorities; the requirement to conduct a mini-competition under a framework agreement, delivery charges, minimum order levels and so on. Contract details will also need to be recorded on Covalent for monitoring purposes and to ensure that details can be reported as part of our obligations under the Local Government Transparency Code.
- 6.3.3 Goods or services may also be procured jointly with other such organisations to obtain best value but must meet the requirements of the Council's own rules on procurement.
- 6.3.4 Other variations of procurement may be considered but officers must approach the Procurement Team for guidance before the commencement of alternative procurement routes.

**CONTACT:** Corporate Procurement Officer

#### 6.4 **Appraisal of Potential Contractors**

- 6.4.1 It is important that potential suppliers are able to meet the Council's needs. Suppliers should, therefore, be vetted in financial and performance terms (including health and safety) to various levels commensurate with the criticality and risk of the purchase/supply, prior to any firm commitment. **Please contact the Procurement Section for guidance.**
- 6.4.2 The financial appraisal checks that the supplier operates on a sound financial footing by

assessment profit levels, the ability to pay bills and so on. It will also assess the supplier's capacity to deliver a contract without incurring unreasonable financial risk and recommend a maximum value contract that should be considered in order to protect the contractor from becoming too reliant on the Council for its business. The Executive Director Corporate Services will undertake or arrange these appraisals on receipt of the last two years audited accounts. The appropriate Chief Officer is responsible for ensuring that all relevant documents are submitted to the Executive Director Corporate Services in a timely manner. The Chief Officer must advise the Executive Director Corporate Services if the contract value exceeds £100,000 since a high level appraisal is then required.

- 6.4.3 In addition to the financial details submitted, the contractor is also required to submit details of Employers Liability, Public Liability Insurance and Professional Indemnity cover which must be appropriate and proportionate to the contract type, size and the nature of the contract, copies of which should be submitted along with the financial details to the Executive Director Corporate Services. The Chief Officer must check that the certificates are valid for the period of work. If they expire during the period the Chief Officer must check before expiry that they have been renewed. Further advice and guidance can be sought from the Director of Finance.
- 6.4.4 In terms of performance appraisal, the Chief Officer needs to satisfy themselves that the contractor has a history of sound performance of similar supplies in the recent past. The Chief Officer should therefore request bank references, trade references and make other enquiries deemed necessary to become satisfied.
- 6.4.5 Some contractors are required to hold a valid tax exemption certificate. Certificates should be checked prior to the start of the contract and a copy of the certificate should be forwarded to the Executive Director Corporate Services. The Chief Officer must check that the certificate is valid for the period of work. If it expires during the period of work the Chief Officer must check before expiry that it has been renewed. Further guidance is

available from the Executive Director Corporate Services.

- 6.4.6 In addition to the specific issues referred to within this section, the Chief Officer must ensure that appropriate steps are taken in all cases to assess the suitability of prospective suppliers. The risks involved in the procurement should advise the necessary level of assessment. For instance, even for lower value purchases Chief Officer should still consider the need to obtain assurance that a business is bona fide, or has appropriate health and safety arrangements and insurance cover.

**CONTACT:** Corporate Procurement Officer

## 6.5 **Supplier Register**

- 6.5.1 The names of contractors who have expressed an interest in doing work for the Council are retained on a supplier register within the e-tendering system (in-tend). Any contractor who expresses an interest to be included is automatically added to the Supplier Register. There is no pre-set requirement for contractors when signing up to the register. Appropriate appraisal criteria should be considered at the start of the tendering/quotation stage.
- 6.5.2 All Supplier Registers shall be maintained in an open, fair and transparent manner and be open to public inspection.

**CONTACT:** Corporate Procurement Officer

## 6.6 **Framework Agreements**

- 6.6.1 The terms of a Framework Agreement must not generally exceed four years and, while an agreement may be entered into with one provider, where an agreement is concluded with several organisations, there must be at least three in number.
- 6.6.2 Contracts based on Framework Agreements may be awarded by either:
- Applying the terms laid down in the Framework Agreement (where such terms are sufficiently
  -

precise to cover the particular call-off) and where value for money can be clearly determined without reopening competition, or

- Where the terms laid down in the Framework Agreement are not precise enough to complete for the particular call off, by holding a mini competition in accordance with the following procedure:
  - Inviting the organisations within the framework Agreement that are capable of executing the subject of the contract to submit written tenders;
  - Fixing a time limit which is sufficiently long to allow Tenders for each specific contract to be submitted, taking into account factors such as the complexity of the subject of the contract;
  - Awarding each contract to the tenderer who has submitted the best Tender on the basis of the award criteria set out in the specifications of the Framework Agreement.

**CONTACT:** Corporate Procurement Officer

## 6.7 Tender Procedures

6.7.1 For contracts over £50,000 Chief Officers must advise the Procurement Team in writing at the outset but at least six months before the required commencement date. An Invitation to Tender advert is placed to invite potential contractors or suppliers to register their interest in tendering for the relevant requirement.

6.7.2 The Invitation to Tender should contain details of the principal elements of the procurement requirement in order that it primarily attracts those contractors who are in a position to satisfy these requirements. It should therefore contain as a minimum:

- A sufficiently detailed requirement or specification for the type of goods, services or works required;

- A price schedule;
- Standard conditions of contract that will apply in the event of a contract being awarded;
- Instructions to tenderers including the date of commencement of the contract and possible duration; technical and financial information; the closing date for tender submissions, and a list of the evaluation criteria and sub-criterion together with the weightings to be used.

6.7.3 The evaluation criteria together with the weightings must be referred to in the Invitation to Tender and must not be altered after the Invitation to Tender has been issued. All criteria chosen to be used in the evaluation of tenders must be relevant to the service and/or goods required.

6.7.4 The Chief Officer must set a detailed evaluation methodology prior to inviting tenders. They should set out explicitly how price and quality elements will be balanced in the final decision in order to help demonstrate selection of the most economically advantageous tender. Appropriate and sufficient information must be required for inclusion in the supplier's submission to enable all criteria to be evaluated. Advice is available from the Procurement Team.

6.7.5 Large contracts may require the tenderers to submit a schedule of rates. To compare them properly and allow the total cost to be assessed, the Chief Officer should construct a model of work likely to be required over a set period, for example, one year. This model must be set before tenders are invited, and must be issued with the Invitation to Tender.

6.7.6 Contracts awarded will be required to be published in accordance with the Government's Transparency agenda.

### **European Union Procurement Procedures**

6.7.7 The relevant EU Directives on procurement must be adhered to when awarding a contract where the anticipated value is close to or exceeds the

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thresholds indicated below.

<b>Thresholds</b>	<b>Supplies &amp; Services (£)</b>	<b>Concessions (£)</b>	<b>Works (£)</b>	<b>Light Touch Regime Services (£)</b>
Contract Value	£181,302	£4,551,413	£4,551,413	£615,278

- 6.7.8 These figures apply from 1 January 2018. The Procurement Team must be advised in writing at least six months in advance of the supply and guidance sought as to the appropriate values and procedures used. Further information on EU Procurement Procedures and guidance on the use of the open, restricted, competitive dialogue, competitive dialogue with negotiation, innovation partnership and negotiated without prior publication procurement routes, together with design contests and works concessions, should be obtained from the Procurement Team. The Procurement Team must be involved in all procurement projects under EU regulations due to the complexities and legal implications involved.
- 6.7.9 In appropriate cases, Chief Officers may engage with the market prior to initiating the tendering process in order to make use of innovative approaches in achieving best value in the provision of a supply or service. This could involve consulting with stakeholders including customers, potential suppliers and interested groups. The Director of Finance must be fully consulted and involved in any such proposals, which must comply with corporate guidance and EU Procurement Procedures.
- 6.7.10 Under the provisions of the Public Services (Social Value) Act 2012, the Authority is required to have regard to economic, social and environmental well-being in connection with EU public service contracts.

This requires the Authority to consider:-

- a) How what is proposed to procure might

improve the economic, social and environmental well-being of the relevant area;

- b) How, in conducting the process of procurement, it might act with a view to securing that improvement; and
- c) Whether to undertake any consultation regarding a) and b) above.

The provisions require that any actions are relevant and proportionate to the proposed procurement. Further advice and guidance should be obtained from the Corporate Procurement Team.

### **Development of Contract Brief**

6.7.11 Where there is a variation from the agreed budget each Chief Officer must seek Cabinet endorsement prior to tendering. The report should comment upon:

- a) The detailed proposals for the scheme, including objectives, targets, milestones, design details and its contribution to the corporate and service plans;
- b) The financial appraisal of the revenue and capital implications, prepared in conjunction with the Executive Director Corporate Services, and compared to budgets;
- c) Risk associated with the scheme;
- d) The tender evaluation mechanism and the decision criteria.

6.7.12 Approval at this stage will normally include authority to invite tenders and to accept the most economically advantageous tender.

6.7.13 Chief Officers should consult the Director of Finance and the Solicitor to the Council for advice.

### **Extension to Tender Period**

6.7.14 The Solicitor to the Council (or her nominated deputy) or the Executive Director Corporate

Services (or his nominated deputy), may approve the extension of a tender period. The Corporate Procurement Officer is authorised to approve the extension of a tender period only if and when none of the above officers are available. The reasons for the extension of the tender period must be recorded on in-tend and all potential tenderers must be informed of the extension to the tendering period.

### **Amendments to Tenders (by Contractors)**

- 6.7.15 Any amendment a contractor wishes to make to a submitted tender must be received before the closing date and time for responses. In-tend will provide this facility to suppliers.

### **Tender Opening – Electronic**

- 6.7.16 All tenders for an individual contract must be opened at the same time by at least 2 officers. This should include a representative from Legal Services for purchases that are subject to EU procedures.
- 6.7.17 A tender received after the specified time may be only opened and considered at the discretion of the Solicitor to the Council.

### **Sub-Contractors and Nominated Suppliers**

- 6.7.18 Nominated sub-contractors and suppliers must not be used where this would be anti-competitive, discriminatory or in breach of procurement regulations.
- 6.7.19 If a Chief Officer wishes to nominate a specific sub-contractor or supplier a written request must be sent to and be approved by the Director of Finance who will assess any risks involved. The request must show how this will give best value/value for money.

### **Amendments to Tender Documents (by the Authority)**

- 6.7.20 Minor corrections and amendments to any part of the Invitation to Tender may be required during the

tender period. Chief Officers must consult with Procurement, and where appropriate the Director of Finance, and if necessary the Solicitor to the Council on such matters, and all tenderers must be advised of all agreed amendments in writing at the same time. Acknowledgement of receipt of the amendments will be recorded on the electronic tendering system. In responding to clarifications and queries, the response should be addressed to all tendering organisations, and issued at the same time via the in-tend system. All correspondence will be sent electronically.

- 6.7.21 The Invitation to Tender amendments must not contain anything which may materially affect the tender process or unduly affect open and fair competition. No fundamental changes to the Invitation to Tender documentation should be made by the information contained within the amendment.
- 6.7.22 A record is retained electronically by in-tend of all correspondence with tenderers throughout the tender process .

### **Tender Evaluation**

- 6.7.23 Chief Officers must ensure that at least two people carry out the evaluation of tenders. For major contracts involving a project team, the Manager should consider involving the whole team. All tender evaluations carried out must be evidenced with a full audit trail.
- 6.7.24 Tender evaluation must be completed using the spreadsheet available from the Procurement Team. The Procurement Team should be contacted to provide advice and guidance. The tender evaluation spreadsheet must be returned to the Procurement Team for review before the award of the contract, and must be retained with the procurement documents.
- 6.7.25 Tenders must be checked to ensure they are complete and that all price calculations are correct. They must be evaluated objectively in line with the specified evaluation mode, ensuring fair and equitable treatment for each tender. Reasons for the scores given to each tenderer for each element of the evaluation must be recorded.

Where a moderation process is used, any changes to scores must be evidenced and a full audit trail retained.

6.7.26 If an arithmetical error is discovered in the financial submission, the Chief Officer should consult the Corporate Procurement Team. The contractor must be notified in order to enable themselves to:

- a) Agree the amendment; or
- b) Allow the original figure to stand; or
- c) Withdraw the tender.

6.7.27 If a Tenderer notifies the Council of an error/amendment which materially affects the submission, the Chief Officer must consult with appropriate officers, for example, the Corporate Procurement Officer, Director of Finance, the Solicitor to the Council or Executive Director Corporate Services and should normally implement one of the following options:

- a) All other Tenderers are allowed to retender (in the case of the Council's error); or
- b) The Tenderer is required to stand by the original Tender; or
- c) The Tenderer withdraws the Tender; or
- d) (where an error is found before completion of tender evaluation) to correct an error which can be corrected simply by confirming which of two conflicting figures (eg., a multiplier or product, or carried forward or brought forward) is right
- e)

6.7.28 During the evaluation process, clarification may be sought on any of the tenders received. The questions and answers should always be submitted via the in-tend system and incorporated into the tender documentation.

6.7.29 There must be no fundamental change to the contract specification or award criteria. Amendments to the specification or terms of the supply, which do not distort competition or are not considered material changes or fundamental to the contract can be made, and shall be put to all Tenderers prior to the submission deadline and in good time for them to make any necessary changes to their tender. Guidance is available

from the Corporate Procurement Team, Director of Finance or Solicitor to the Council.

- 6.7.30 At the conclusion of the evaluation process, the Chief Officer should be able to, and is expected to, select the tender which is the most economically advantageous to the Council, as indicated by the evaluation model.

### **Post Tender Negotiation & Clarification**

- 6.7.31 After the tenders have been returned and evaluated, further clarification from tenderers, in relation to the tender bid may be required. Clarifying information can include the following:

- Price
- Specification
- Delivery date/start date
- Payment Terms
- Software Licenses

- 6.7.32 All tender bids are covered by the [Public Contract Regulations](#) which state all negotiations with tenderers on fundamental aspects of contracts, variations of which are likely to distort competition and in particular on price, shall be ruled out. However, discussions with tenderers may be held, only for the purpose of clarifying or supplementing the content of their tenders or the requirements of the contracting authorities, and provided this does not involve discrimination. There must be no fundamental change to the contract specification or contract award criteria.

- 6.7.33 Where a tender return is unclear or there are minor sections which have been omitted with no explanation included, it is recommended that the tendering organisation is contacted for clarification, this must be done via the n-tend system. In the case of numerous or sizable omissions, guidance must be sought from the Director of Finance and Procurement before clarification is requested.

- 6.7.34 All tendering organisations must be treated fairly and equally in all circumstances.

- 6.7.35 An electronic record will be kept of any query on a tender on in-tend and any information supplied by the tenderer must also be conducted via the in-tend system.
- 6.7.36 Where it is necessary to meet a tenderer to discuss their submission further, at least two authorised officers must be present and minutes taken. In all instances, the Procurement Team must be consulted.
- 6.7.37 In some cases it may be necessary to vary, by agreement, some minor details of the work required. Consultation with the Procurement Team and the Solicitor to the Council must be made prior to any agreement being made.
- 6.7.38 Advice should always be sought from the Procurement Team, Director of Finance or the Solicitor to the Council before entering into clarifications or negotiations.
- 6.7.39 Chief Officers must not enter into negotiations except:
- a) With the preferred tenderer(s) under the evaluation mode and after all unsuccessful tenderers have been informed; or
  - b) When using the negotiated procedure under EU rules, in which case those procedures must be followed.

The Chief Officer must ensure that:

- c) Negotiations are carried out by at least two authorised officers, and guidance on separation of duties is followed;
  - d) The decisions taken at relevant meetings are documented;
  - e) Changes in specification and price are agreed by both parties;
- and
- f) All records are incorporated into contract documents.
- 6.7.40 Where post tender negotiation results in a fundamental or material change to the specification (or contract terms) the contract must not be awarded but re-tendered.

## **Tender Acceptance**

**Where the tender price exceeds the estimated budget by the lower of £10,000 or 5% the Executive Director Corporate Services MUST be informed and has the discretion to authorise that the tender be accepted and a contract entered into.**

- 6.7.41 A Chief Officer may accept the winning tender after evaluation if it meets all material aspects of the specification and is within the budget provision. If the amount is higher than budgetary provision, the guidance on Budgets must be followed. If only one tender is received, advice and guidance MUST be obtained from the Solicitor to the Council and the Director of Finance of the process to be followed.
- 6.7.42 When requesting approval to procure contracts, officers must ensure that approval is obtained from Cabinet to award the contract to the successful tenderer (in compliance with delegated procedures). With all income generating projects, i.e. the disposal of material operating assets/activities, Cabinet must approve the preferred tenderer.
- 6.7.43 Where the procurement is conducted under EU procedures, advice **MUST** be sought from the Director of Finance or the Procurement Team prior to any notification of an award of contract being issued. All tenderers shall simultaneously be provided with a written standstill notice of the Authority's intention to award the contract to the successful tenderer. The standstill notice must be issued electronically to tenderers (via in-tend), in the name of the Solicitor to the Council, or, in her absence, the Director of Finance. The tenderers must be provided with a period of 10 calendar days to review, and, if considered necessary, to challenge the decision before the contract is awarded. Day one of the period shall commence on the day following issue of the standstill notice. The tenth day must fall on a working day and the 10 day standstill period must be extended, where necessary, to ensure that this happens. If the decision is challenged, then the contract shall not be awarded and advice must immediately be sought from the Solicitor to the Council and the



Corporate Procurement Team.

6.7.44 The standstill notice must contain a precise statement of when the 10 day standstill period will end ie., midnight at the end of (date) together with the following information:

- The criteria for the award of the contract;
- Reasons for the decision including the characteristics and relative advantages of the successful tenderer;
- In conjunction with the above, the score of the unsuccessful tenderer (including criterion and sub-criterion) and that of the successful tenderer to be awarded the contract;
- The reasons why (if any) the unsuccessful tenderer did not meet the technical specifications;
- The name of the successful tenderer to be awarded the contract.

The standstill notice **must** always be prepared in consultation with the Corporate Procurement Team.

**CONTACT:** Corporate Procurement Officer

## 6.8 Post Tender and Contracts

### Preparation of Contract

6.8.1 Where a tender has been subject to EU procedures and the standstill period has been completed without a challenge, then all tenderers must be informed once the contract has been awarded. More generally, having decided to accept a tender/quotation the Chief Officer must advise the tenderer of the outcome of the process and must finalise a contract. This might involve simple acceptance of a standard form of contract, minor amendment agreed via correspondence or it might require meetings with the successful tenderer. Where an industry standard form of contract and terms and conditions are available, e.g. JCT or ICE contracts, they should be used in place of the Council's standard forms (but only if already specified in the Invitation to Tender documents). All agreed amendments must be

recorded in writing and formally incorporated into the contract. Advice should be sought from the Corporate Procurement Team, and where necessary, the Solicitor to the Council.

6.8.2 The Chief Officer should ensure that all approvals that remain outstanding (such as planning permission) are obtained prior to the completion of the contract documents.

6.8.3 In addition, every relevant contract over £50,000 must also state clearly as a minimum:

Prices and/or rates together with any adjustment mechanisms that shall apply during the term of the contract;

Invoice procedures;

Performance indicators and/or service levels required;

Conditions of contract that shall include:

- That the contractor may not assign or sub-contract without prior written consent
- Insurance requirements
- Health and safety requirements
- Ombudsman requirements
- Data protection requirements, if relevant
- Charter standards are to be met, if relevant
- Equalities & Diversity Policy requirements
- Children & Vulnerable Adults Policy requirements, if relevant
- Conflict of Interests requirements
- Freedom of Information Act requirements
- Bribery act requirements
- Right of access to relevant documentation and records of the contractor for monitoring and audit purposes if relevant.

Where agents are used to let contracts, agents must comply with the Council's contract procedures rules.

#### Insurance

6.8.4 Chief Officers must ensure that the contract has Employers Liability and Public Liability insurance, **normally** to a minimum value of £10 million and £5 million respectively; and should seek the advice of the Executive Director Corporate Services wherever there is doubt. Other insurances, for

example, professional indemnity may be desirable.

- 6.8.5 The responsibility for obtaining contractor insurance details including renewals lies with the appropriate Chief Officer. The Chief Officer should ensure that all insurance details are passed to the Executive Director Corporate Services without delay.

#### Bonds and Parent Companies Guarantees

- 6.8.6 The officer must consult the Executive Director Corporate Services about whether a Parent Company Guarantee is necessary when a contractor is a subsidiary of the parent company and:

The total value exceeds £250,000, or  
The award is based on evaluation of the parent company, or  
There is some concern about the stability of the contractor.

- 6.8.7 The Officer must consult the Executive Director Corporate Services about whether a bond is needed:

Where the total value exceeds £1,000,000, or  
Where it is proposed to make stage or other payments in advance of receiving the whole of the subject matter of the contract and there is concern about the stability of the contractor.

#### Signing of Contracts

- 6.8.8 The Solicitor to the Council should check and endorse contracts before engrossment valued at £50,000 or above for signature. Contracts below £50,000 should be signed by the relevant member of the Corporate Management Team (CMT). If, in the latter case, a number of members of CMT are involved, then the contract should be signed by the main user.

- 6.8.9 The Officer signing the contract must notify all interested managers it has taken place. The Director of Finance must be notified in every case.

#### Site Possession

- 6.8.10 On completion of the contract documents the Chief Officer should where relevant arrange a site possession date. Chief Officers must not allow entry onto the Council's land or commencement of work prior to the completion of a written contract. In exceptional circumstances, this may be authorised by the Chief Operating Officer.

Document Retention (all formal contracts)

- 6.8.11 Chief Officers must ensure the original copies of all formal contracts are placed in the Council's strong room for all contracts over 12 months/over £50,000. Where a consultant has been engaged to manage the contract on the Council's behalf, it must be ensured that both the contractor and Chief Officer have necessary access to contract documents to enable their functions to be performed.

Contract Amendments

- 6.8.12 Contracts may need amending after signing. The circumstances will dictate the level of approval needed for the change. The relevant Chief Officer should seek appropriate advice, for example, from the Solicitor to the Council, before proceeding.

**CONTACT:** Corporate Procurement Officer, Operations Accountant

**6.9 Project/Contract Implementation & Payment**

- 6.9.1 A separate file should be maintained by the relevant Chief Officer for each project, including copies of such contracts making up the project. The file should contain the following information:-

- a) A record of instalments due and paid;
- b) The working papers substantiating payments; and
- c) The details of payments to consultants, internal fees and other payments.

- 6.9.2 Chief Officers must only authorise payments that conform to the terms of the contract.

- 6.9.3 The Chief Officer must only make payments to contractors for Buildings & Engineering works on the basis of a valuation certificate detailing:

- a) The total value of the contract;
- b) The value of work executed to date;
- c) The amount paid to date;
- d) The amount now certified;
- e) Any retention monies;
- f) Whether the work is subject to VAT or Liquidated and Ascertained Damages (together with details of the calculation of damages).

6.9.4 Where the work is subject to VAT the Chief Officer must ensure that either a VAT invoice or receipt is obtained in order to substantiate the VAT reclaimed.

6.9.5 Where liquidated and ascertained damages are to be deducted, the Chief Officer must ensure that the contractor is notified as soon as possible and given details of the basis of calculation. Any liquidated damages applied at any stage of the contract must be deducted from any subsequent valuation certificate before any payment is made.

Contract Monitoring and Variations (including claims)

6.9.6 The Chief Officer must monitor expenditure under a contract and take action where appropriate to ensure the final contract sum or the level of expense incurred in any financial year does not exceed the approved budget/available resources.

During the life of the contract, the officer must monitor in respect of:

- Performance; •
- Compliance with specification and contract; •
- Cost; •
- Any Value for Money requirements; •
- User satisfaction and risk management. •

Contracts of a high value or high risk should be subject to formal monthly review with the contractor.

For contracts over £50,000, contract managers must:

- Maintain a risk register on the Covalent system •

- during the contract period;
- Undertake appropriate risk assessments and for identified risks;
- Ensure contingency measures are in place.

6.9.7 Subject to the provisions of the contract, every extra cost or variation should be authorised in writing by the Chief Officer. Copies of the approved delegated decision that permits officers to authorise variations or extra costs should be forwarded to the Executive Director Corporate Services by the Chief Officer or the delegated officer.

6.9.8 If the revised project cost exceeds the budget/available resources, the guidance on capital budgets and projects must be followed.

6.9.9 Where a contract requires a contractor to meet specified outcomes or service levels (e.g. in a partnering-type arrangement) appropriate arrangements must be made by the Chief Officer to ensure that the expected outcomes/service levels are provided or that clear processes exist for reporting and approving any variations from these outcomes/service levels and their financial effect. Any proposals to provide financial incentives or profit sharing arrangements with partners must be subject to appropriate approval and budget processes. Such arrangements must provide appropriate levels of probity and transparency.

6.9.10 Where payment under a partnering arrangement is based upon an agreement of target prices between the Council and the external partner then written evidence shall be provided to demonstrate that the target price represents value for money.

6.9.11 Where a consultant is contracted to monitor a contract on the Council's behalf, the Chief Officer must ensure that the consultant contractor complies with this financial guidance.

**CONTACT:** Director of Finance, Head of Internal Audit Services

## 6.10 Final Account

6.10.1 Payment of the final account (where relevant)

effectively closes the contract and it must be correct. The Chief Officer must ensure that adequate checks are carried out to ensure the final account/payment is correct and has been accurately calculated. They must also ensure there is adequate separation of duties in preparing and agreeing the final account. Management within the relevant Directorate will, on an annual basis, review the Contract Register maintained by the Executive Director Corporate Services and sample test a number of payments (this process should be adequately evidenced).

- 6.10.2 For building and engineering work the relevant project manager must prepare a detailed statement of account before a final certificate (where required) is issued showing variations against the original contract price, payments made to date and any further payments due. It should be sent to the client Chief Officer within one month of the issue of the certificate of practical completion.
- 6.10.3 The client Chief Officer should approve and agree the contract final account within the retention period and ensure the final payment and certificate are sent to the contractor by the due date. In case of difficulty, advice should be sought from relevant officers, for example, the Solicitor to the Council or Executive Director Corporate Services.
- 6.10.4 Final account outturn should be reported in accordance with the Corporate Capital Strategy.

**CONTACT:** Director of Finance

## 6.11 Post Contract

- 6.11.1 Claims from the contract in respect of matters not clearly within the terms of any existing contract should be referred to the Solicitor of the Council for consideration of the authority's legal liability.

**CONTACT:** Solicitor to the Council

## 6.12 Partnerships

- 6.12.1 Partnerships have a key role in delivering community strategies and in helping to promote

and improve the well-being of the area. The Authority is and will be increasingly working with others – public agencies, private companies, community groups and voluntary organisations.

6.12.2 The main reasons for entering into partnerships are:

- The desire to find new ways to share risk •
- The ability to access new resources •
- To provide new and better ways to deliver services •
- To forge new relationships •

6.12.3 A partner is either:

- An organisation (either private or public) undertaking, part funding or participating as a beneficiary in a project; or •
- A body whose nature or status gives it a right or obligation to support the project. •

6.12.4 Partners participate by:

- Acting as a project deliverer, provider or sponsor, solely or in connection with others; •
- Acting as a project funder, part funder, commissioner or joint commissioner; •
- Being a beneficiary group of the activity undertaken in a project. •

6.12.5 Partners have common responsibilities:

- To be willing to take on a role in the broader programme appropriate to the skills and resources of the partner organisation; •
- To act in good faith at all times and in the best interest of the partnership's aims and objectives; •
- To be open about any conflict of interest that may arise; •
- To encourage joint working and promote the sharing of information, resources and skills between the public, private and community sectors; •
- To hold confidentially any information received as a result of the partnership activities or duties that is of a confidential or commercially sensitive nature; •



- To act wherever possible as ambassadors for the project.

#### 6.12.6 Chief Officers should be aware of:

- Their responsibilities with regard to the Authority's financial regulations and contract standing orders;
- The requirement for them to identify and evaluate all known risks associated with the partner arrangements, and take action deemed appropriate to deal with these risks;
- Ensuring that project appraisal techniques are in place to assess the viability of the project in terms of resources, staffing and expertise;
- Their role in agreeing and accepting formally the roles and responsibilities of each of the partners involved before the commencement of the project;
- Their need to communicate regularly throughout the project so that problems can be identified and shared to achieve their successful resolution.

#### 6.12.7 Managers should ensure that:

- Potential partners are assessed for the financial viability in the same way as contractors;
- Internal audit roles and responsibilities are documented within the contract documentation;
- Partners and contractors are made aware of the Authority's Whistleblowing and Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes;
- Arrangements for ownership after the project has ended are identified and documented;
- Partnership agreements and arrangements are appropriately authorised and documented and do not impact adversely upon the services provided by the Authority;
- Appropriate information is provided to the Executive Director Corporate Services to enable a note to be entered into the Authority's statement of accounts concerning material matters;
- There are robust and transparent arrangements for partnership governance which comply in all material respects with the

- Council's own rules on such matters;
- There are sound arrangements for monitoring, reviewing and reporting upon the activities and performance of the partnership;
- They refer to the indemnity and conduct/conflict of interest issues;
- They maintain and update the partnership database for their significant partnerships.

6.12.8 Corporate processes for approving, reviewing and reporting upon partnership arrangements and commitments under these must be complied with.

**CONTACT:** Head of Partnerships & Commissioning

### 6.13 Orders for Supply from External Sources

6.13.1 Official orders must be issued for all work, goods or services to be supplied to the Council except:

- Where a contract specifies otherwise;
- Supplies of public utility services;
- Payments such as rent or rates;
- Petty cash purchases; or
- Other exceptions approved by the Executive Director Corporate Services.

6.13.2 Individuals must not use official orders to obtain goods or services for their private use.

6.13.3 Official orders to suppliers for goods and services must be raised on the Efinancials System and promptly issued to the supplier/contractor. This ensures that the commitment is raised on the financial system and so aids the control and monitoring of budgets.

6.13.4 Verbal orders should only be given in urgent cases, and any such order must be confirmed by an official order and endorsed "Confirmation Order". All authorised signatories together with any restricting financial limits must be notified to the Executive Director Corporate Services.

6.13.5 Orders must detail the work/goods/services ordered, refer to appropriate terms and conditions, be priced in accordance with estimates, quotations and so on, and contain the delivery address which must be a Council property. Expenditure must be coded to the correct detailed budget heading,

even if there is no budget under that heading or it has been committed, including those required by statute or court order.

- 6.13.6 Before authorising an order the authorising officer must be satisfied that best value has been achieved, goods/ services are appropriate to the service and genuinely required, appropriate quotations/tenders have been received and that there is appropriate budget provision. For guidance where there is insufficient budget provision, refer to the section on Budgets.

**CONTACT:** Director of Finance

## 6.14 Receiving Goods and Services

### Deliveries

- 6.14.1 Any employee who accepts deliveries of goods must obtain a delivery note, which should be signed by the supplier and receiver at the time. The Chief Officer who ordered the supplies must ensure they are checked as to quantity, quality and compliance with specification at the time of delivery, or as soon as possible thereafter. Where it is not possible to carry out this check at the time of the delivery, the employee should ensure this is made clear on the delivery note.

### Goods Receipting

- 6.14.2 As soon after delivery as possible, the financial system must be updated to show that the goods have been received (refer to the Guidance on Separation of Duties). Receipting goods on the financial system ensures that expenditure is accrued. This enables managers to monitor and control their budgets more effectively. The employee recording goods receipt on the financial system must be satisfied that the quality, quantity and specification of the goods/services delivered is as ordered.

**CONTACT:** Head of Internal Audit Services, Operations Accountant

## 6.15 Advance Payments

- 6.15.1 Advance payments should only be used for minor

supplies such as course fees, seminars and publications. Chief Officers should consult the Executive Director Corporate Services for advice if in doubt. Where advance payment is made and VAT is known to be standard rated they will be processed separately. The Chief Officer must request an authenticated VAT receipt and send it to the Executive Director Corporate Services, if this is not forthcoming the relevant adjustments will be made to correct the accounting entries.

**CONTACT:** Director of Finance

**6.16 Funding to Voluntary & Community Sector Organisations**

6.16.1 Funding to voluntary and community sector organisations can be paid in advance (where appropriate). Where the provision of services on behalf of Tamworth Borough Council is to be delivered in partnership between a voluntary and community sector organisation and a private sector organisation then, subject to an appropriate partnership agreement being in place, funding can be paid in advance. Performance management arrangements must be stipulated in each funding agreement or contract in accordance with the Tamworth Public Sector Commissioning Framework. Evidence must be obtained for expenditure incurred.

**CONTACT:** Head of Partnerships & Commissioning

**6.17 Some Definitions**

6.17.1 The following table gives the definition of terms used in this guidance.

<b>Word</b>	<b>Definition</b>	
Quotation	A value for the supply of a service, goods or materials which must be held for a period of time.	
Estimate	A value for the supply of a service, goods or materials which may be varied following the supply. This is appropriate where it is not possible to give a precise quotation prior to the	

	supply.	
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**CONTACT:** Operations Accountant

## 6.18 Further Advice & Guidance

6.18.1 The Council employs a number of officers who have responsibilities in a variety of areas connected with procurement and purchasing. The following table is a quick reference guide.

Issue	Contact	Comments
Significant departure (either actual or potential) from this guidance	Executive Director Corporate Services, Director of Finance	
Issue	Contact	Comments
Procurement and purchasing – general procedures/EU procedures/joint procurement and partnerships	Director of Finance	Chief Officers must not enter into any arrangement for procuring works, goods or services over the £50,000 tender threshold without seeking guidance from the Director of Finance at least six months in advance of the proposed supply. The Procurement Team can provide relevant advice and guidance, including standard forms and procedure details
Advice on control systems and administration	Head of Internal Audit Services	
The law and legal opinion and sealing and retention of documents	Solicitor to the Council	
Printing Requirements	Communications Manager	Chief Officers must not commit to purchase external printing supplies without consulting with the Communications Manager
Information Technology	Director of Technology & Corporate Programmes	Chief Officers must not commit to purchase IT supplies (hardware and software) without consulting the Director of Technology & Corporate Programmes
Coding, budgets, insurance, VAT, general ledger issues and financial appraisals	Executive Director Corporate Services	

**CONTACT:** Director of Finance

## 7. Payment of Accounts

### 7.1 Introduction

- 7.1.1 One of the main requirements of a sound system of expenditure control is that at any point in time, a budget holder knows:
- a) What has been ordered, including the likely costs;
  - b) What has been received, and is therefore due for payment; and
  - c) What has been paid.
- 7.1.2 Small transactions can be dealt with from petty cash (see the section Cash Advances etc), and in some situations, payments can be made via direct debit or other electronic means – the Executive Director Corporate Services will advise on the correct processes. This section of the guidance deals with the most common form of payment, i.e. payment by BACS or cheque drawn on the Council's bank account.
- 7.1.3 All officers must encourage suppliers of goods and services to receive payments by BACS. BACS payments are secure and certain (to facilitate accurate financial management and reduce fraud) additionally this is the most economical means for the Authority.
- 7.1.4 Corporate credit cards can be used in the day to day business of the Authority but are intended to facilitate transactions only in limited circumstances. Corporate credit cards are to be used chiefly to provide an alternative means of sourcing and purchasing for goods/ services in connection with official business of the Authority, and may not be used for purchases to obtain benefit of discount, payment via the Internet etc. Corporate Credit Card Procedures must be followed.
- 7.1.5 All requests for direct debits against the Authority's bank account should be made to the Accountancy Section.

**CONTACT:** Director of Finance

### 7.2 Security & Good Practice

- 7.2.1 The Council's credit payment system is set up so that the 3 stages of order, goods receipt and payment to be separately processed with password input and authorisation controls in line with the appendix on Separation of Duties. Passwords are often used in place of actual initials and signatures and must not be made known to any other person (see also the Information Security Policy).
- 7.2.2 Each Chief Officer must inform the Executive Director Corporate Services, in writing, of the names of employees permitted to undertake each of the stages, to input orders or authorise orders and confirm goods receipt. The Manager must promptly notify the Executive Director Corporate Services of any changes, for example, resignation. The Executive Director Corporate Services should annually prompt each Chief Officer to review the named employees.
- 7.2.3 Chief Officers may also wish to limit the values input or authorised by staff.

employees, and/or restrict the expenditure codes which some employees can access. This information should also be passed to the Executive Director Corporate Services.

- 7.2.4 The Executive Director Corporate Services must ensure that the payments system:
- a) Conforms with the controls contained in the appendix on Separation of Duties; and
  - b) Checks budget availability.

**CONTACT:** Operations Accountant

## 7.3 Invoice Processing

### 7.3.1 Receiving Goods and Services

#### Deliveries

Any employee who accepts deliveries of goods must obtain a delivery note, which should be signed by the supplier and receiver at the time. The Chief Officer who ordered the supplies must ensure they are checked as to quantity, quality and compliance with specification at the time of delivery, or as soon as possible thereafter. Where it is not possible to carry out this check at the time of delivery, the employee should ensure this is made clear on the delivery note.

#### Goods Receipting

As soon after delivery as possible, the financial system must be updated to show that the goods have been received (refer to the Guidance on Separation of Duties). Receipting goods on the financial system ensures that expenditure is accrued. This enables managers to monitor and control their budgets more effectively. The employee recording goods receipt on the financial system must be satisfied that the quality, quantity and specification of the goods/services delivered is as ordered.

- 7.3.2 Each Chief Officer must ensure that the receipt of any service, material or item of goods is promptly recorded on the payment system, and that, where applicable, records and inventories are updated immediately.
- 7.3.3 Suppliers must be advised to send invoices to accounts, preferably by e-mail to [creditors@tamworth.gov.uk](mailto:creditors@tamworth.gov.uk). If invoices are received in departments each Chief Officer must ensure that they are promptly passed to Corporate Services Direct for processing. Any disputed invoices should be notified to the Executive Director Corporate Services immediately to aid performance monitoring.
- 7.3.4 Before any order is goods receipted, the officer receiving the goods/services must satisfy themselves that the payment is properly due, and that the work, goods or services have been received and/or carried out in accordance with the order/contract/schedule of rates and this has been evidenced.
- 7.3.5 Officers must ensure that in respect of charges for gas, electricity, water etc adequate records are maintained to ensure the charges are correct and the following checked:



are undertaken:

- i) Any standing charges are correct;
- ii) Consumption is charged on the correct tariff;
- iii) That the consumption recorded is reasonable in light of current and previous readings.

7.3.6 Officers should ensure that all credit notes are immediately claimed against invoices or a cheque reimbursement should be requested.

7.3.7 The Accountancy Section will check the payee, prices, quantities, trade discounts, other allowances, credits and tax are correct, not previously paid, properly included and within the budget provision. They will also check any copy/facsimile invoices to ensure that they have not been previously paid and that payments are not made against suppliers' statement of accounts.

7.3.8 The Accountancy Section will ensure that where the invoice includes VAT, it is correctly calculated. Where a VAT invoice is not supplied, the full cost of the invoice including the VAT must be charged to the budget code. The Chief Officer must ensure that an authenticated VAT receipt is subsequently obtained to support the payment and passed to the Accountancy Section immediately on receipt so that the accounting entry can be adjusted.

7.3.9 The controls over invoice processing also applies to work done on our behalf by our partners.

#### Amendments

7.3.10 VAT invoices must not be amended. If an incorrect VAT invoice is received from a supplier must be asked to send:

- a) A corrected invoice, or
- b) A credit note.

7.3.11 Any amendment to a non-VAT invoice must be made in ink and initialled by the officer making it, stating reasons briefly where they are not self-evident.

#### Year End

7.3.12 Each Chief Officer must ensure that where goods and services (goods, materials, services and works, including electricity, gas, water etc) have been received by 31<sup>st</sup> March, that commitment orders and goods receipt notes have been processed with the financial system.

7.3.13 Each Chief Officer must, as soon as possible after 31<sup>st</sup> March and not later than 31<sup>st</sup> April in each year notify the Executive Director Corporate Services of all outstanding expenditure relating to the previous financial year. Outstanding expenditure comprises the value of all goods, materials, services and works (including electricity, gas, water etc) that has been received at 31<sup>st</sup> March, but has not yet been paid.

**CONTACT:** Operations Accountant

#### 7.4 **Electronic Payment Mechanisms**

7.4.1 Payments to suppliers must be completed by BACS transfer, as it is the most effective, secure and certain payment method to facilitate cash management and reduce fraud. Payments will be made by cheques in exceptional circumstances.

7.4.2 Information relating to suppliers bank details should be directed to the Executive Director Corporate Services.

**CONTACT:** Operations Accountant

## 8. Payment of Salaries & Allowances

### 8.1 Salaries

8.1.1 Salaries and other reimbursements are paid by the Director Transformation & Corporate Performance on behalf of each Chief Officer. The Director Transformation & Corporate Performance is responsible for maintaining the establishment list of the Authority, and for the details of standing payments to make. All forms of payment must conform with Council policy and Chief Officers should consult with the Director Transformation & Corporate Performance if change is sought.

8.1.2 It is the responsibility of Chief Officers to ensure that adequate and effective systems and procedures are operated so that:

- a) Payments are only authorised to bona fide employees;
- b) Payments are only made where there is a valid entitlement;
- c) Conditions and contracts of employment are correctly applied;
- d) Employees names listed on the payroll are checked at regular intervals to verify accuracy and completeness.

8.1.3 Each Chief Officer must tell the Director Transformation & Corporate Performance immediately of any changes to their employees or the basis upon which they are employed. The Chief Officer is accountable for any losses to the Council or hardships incurred by an employee resulting from a failure to notify changes promptly.

Examples are:

- i Appointments, resignations, dismissals, suspensions, secondments and transfers;
- ii Sickness and other absences apart from approved leave with pay;
- iii Changes in pay etc, other than normal increments and general pay awards;
- iv Any changes that may affect pensions of employees/former employees.

8.1.4 Chief Officers must ensure that all forms used to generate payments are either as supplied by the Director Transformation & Corporate Performance or are reviewed and sent annually for approval to the Director Transformation & Corporate Performance. They must ensure that completed forms are checked, calculations confirmed and payments properly authorised. Otherwise payment will not be made. Claims for payroll payments more than three pay periods old, will not be considered unless approval is made by the Director Transformation & Corporate Performance or the Executive Director Corporate Services. Claims that do not meet pay deadlines (as

advised by the Director Transformation & Corporate Performance) may not be paid until the following pay period.

- 8.1.5 In exceptional circumstances, for example, if likely to suffer severe hardship, an employee may request their Chief Officer for an advance of salary. The Chief Officer may wish to seek advice from the Director Transformation & Corporate Performance or Executive Director Corporate Services. If the request is supported, the Chief Officer should ask the Director Transformation & Corporate Performance to make the arrangements. The Director Transformation & Corporate Performance should ensure that any advance is recovered from the next payment due.
- 8.1.6 A Chief Officer may certify payment of overtime to officers on spinal column point 35 and above only where prior written approval is obtained from a member of the Corporate Management Team. This would normally be in exceptional circumstances for work of a specific nature such as in covering for a long-term vacancy.
- 8.1.7 Chief Officers may request additional payments such as honoraria for additional responsibility incurred by employees. These must be approved by the Head of Paid Service or the Chief Operating Officer for a period of up to six months..
- 8.1.8 All payroll transactions should be processed through the payroll system. Chief Officers should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis. All such matters should be referred to the Director Transformation & Corporate Performance for guidance.
- 8.1.9 The Director Transformation & Corporate Performance must be notified of details of any employee benefits in kind, to enable full and complete reporting within the income tax self assessment system.

**CONTACT:** Payroll Manager

## 8.2 Intermediaries Legislation (IR35)

- 8.2.1 Changes to the way the current intermediaries' legislation (IR35) applied to off-payroll working in the public sector came in to effect from April 2017. Where the rules apply, people who work in the public sector through an intermediary will pay employment taxes in a similar way to employees.
- 8.2.2 Chief Officers are required to complete the following duties:

Determine whether off-payroll working rules should apply and when there are contractual changes, if the rules continue to apply.

Where using an agency or other third party to provide labour,

notifying them whether off-payroll working rules should apply to the contract they have with the worker

Where it does not reply to the written request from an agency or third party as to whether the off-payroll rules apply within 31 days, becoming responsible for accounting for PAYE as if it were a fee-payer

- 8.2.3 If you are requesting a supplier to carry out services or labour on your behalf you will need to carry out a check as to whether the supplier should be paid as if they were an employee under the IR35 legislation. Detailed guidance on IR35 is available [here](#) and must be followed.

**CONTACT:** HR Manager

### 8.3 Allowances and Expense Claims

- 8.3.1 Employees must submit expense claims in the pay period after which they were incurred in order to assist budget monitoring. Because of the difficulty in verifying old claims, claims more than three pay periods old, will not be considered unless approval is made by the Director Transformation & Corporate Performance or the Executive Director Corporate Services. Claims that do not meet pay deadlines (as advised by the Director Transformation & Corporate Performance) may not be paid until the following pay period. All car allowance claims must be supported with a VAT invoice for the fuel used.
- 8.3.2 Managers must only authorise claims they can certify as being correct – i.e. journeys were authorised, expenses necessarily incurred and claims are properly payable by the Council. The accuracy of any mileage claims and any calculations must be checked. Therefore, it is essential that all car allowance claims forms must show details of the trip undertaken, including postcodes (where appropriate and feasible to do so), the duties carried out, both the opening and closing odometer readings and the deduction of any “ordinary commuting miles” (if applicable). Managers must also ensure that officers claiming both casual and essential allowances have appropriate and up to date documents to include a valid driving licence, certificate of motor insurance that covers business use, valid MOT and vehicle registration document.
- 8.3.3 Chief Officers should ensure that the most appropriate means of travel in terms of cost and benefit is used. For example, long journeys may be better undertaken by train, for example, to reduce the length of the working day or allow the employee to work during the journey (see guidance on Subsistence Policy).
- 8.3.4 Where subsistence and other associated travel expenses are claimed, they must be supported by VAT receipts. The Council will

not reimburse any expenditure relating to alcohol. Guidance on subsistence rates that can be claimed can be found in the Subsistence Policy which is appended to this guidance. The maximum limits will be updated on an annual basis in line with the RPI.

- 8.3.5 Claims relating to Post Entry Training must be sent to the Director Transformation & Corporate Performance to authorise the claim. The Chief Officer must ensure the scheme is authorised and an agreement has been signed by the employee. Where the scheme provides for the repayment of expenses, the Director Transformation & Corporate Performance must arrange recovery of any sums due before the employee leaves. The Organisational Development Unit will supply guidance on amounts that can be claimed on an annual basis.
- 8.3.6 Personal expenses incurred in entertaining guests will not be reimbursed without the prior approval of the Executive Director Corporate Services.

**CONTACT:** Payroll Manager

#### 8.4 **Members Allowances**

- 8.4.1 The Solicitor to the Council must check and certify claims submitted by Members. They must give the Director Transformation & Corporate Performance details of regular payments, such as responsibility allowances, and must immediately notify any changes. Expenses claims must be submitted monthly to aid budget monitoring. Expenses claim forms must be completed in full, e.g. detailing journeys made, opening and closing odometer readings and any other expenses claimed. Claims can only be made for approved duties as defined in the Constitution. All car allowance claims must be supported with a VAT invoice for the fuel used. Claims in excess of three months will not be considered unless approved by the Executive Director Corporate Services or the Chief Operating Officer or the Head of Paid Service.
- 8.4.2 Members wishing to attend a conference etc must advise the Solicitor to the Council, after consultation with the Cabinet if necessary, who may approve the payment of the cost of attendance at Conferences and training events and the payment of travelling, subsistence and attendance allowance(s) in the rates prescribed by the Secretary of State.
- 8.4.3 Wherever possible the Chief Officer should arrange overnight conference accommodation on behalf of Members and ensure invoices are sent direct to the Council.

**CONTACT:** Solicitor to the Council



## **9. Cash Advances, Cash Floats and Petty Cash**

### **9.1 Purpose**

9.1.1 Small amounts of cash currently need to be held in service units to:

- a) Provide a cash float in tills;
- b) Pay minor expenses.

### **9.2 Processes**

9.2.1 A Chief Officer needing a cash advance must send a written request to the Executive Director Corporate Services. The manager receiving the cash advance must sign for the receipt of all cash advances. A copy of the receipt must be forwarded to the Finance section for accounting purposes. They are responsible for the security of the cash and may be held responsible for making good any shortages.

9.2.2 Only minor items of expenditure may be paid out of petty cash. Petty cash must not be used to carry out recurring purchases of a similar nature. Chief Officers must not authorise any individual payment over £100 without the agreement of the Executive Director Corporate Services or the Director of Finance. Where reimbursement of expenditure exceeds £100, this should be processed through the payroll system. Claims for expenses should be completed using the expenses claim form. VAT receipts for all expenses must be attached. Expenses will be reimbursed through the Payroll system with salary payments.

9.2.3 Payments out of petty cash must be supported by a receipt or other voucher. Wherever possible a VAT receipt should be obtained. Income received must not be paid into a petty cash account.

9.2.4 The Chief Officer must keep full records of all transactions. Records must be kept fully up-to-date, showing the current balance in the account. The expenditure details and receipts/vouchers must be sent to the Executive Director Corporate Services with the claim for reimbursement.

9.2.5 The Chief Officer must ensure that the balance is checked at least monthly by an officer without other responsibilities for petty cash. All checks made should be evidenced. Any discrepancies must be investigated and reported as necessary.

9.2.6 At 31<sup>st</sup> March each year the officer carrying out the check must send written confirmation to the Executive Director Corporate Services of the balance held and an explanation of any discrepancy.

9.2.7 No float should be used to cash personal cheques or make personal loans. The only payments in to the account are for the reimbursement



of the float and any change relating to purchase where an advance has been made.

- 9.2.8 Any transfers of floats between officers should be evidenced by signature of both parties involved and a copy retained by the transferor. A copy should be sent to the Executive Director Corporate Services to ensure that records remain up to date.

**CONTACT:** Director of Finance

## 10. Income, Charging and Debts

### 10.1 Fees & Charges

- 10.1.1 Directors **must** consider charging policies and current levels of charge each year as part of the service and financial planning process. The presumption is that the value of fees and charges will be maintained in real terms over time and reviewed annually, as a minimum, with necessary adjustments.

The setting and reviewing of fees, charges and other income sources must be carried out annually in line with the requirements of the Fees and Charges Policy and must be authorised in accordance with the detail set out in the Constitution and the Scheme of Delegation.

- 10.1.2 Proposals for new fees and charges must be considered within the financial planning process, or, where necessary, as an in-year change authorised in accordance with the detail set out in the Constitution and the Scheme of Delegation.

Proposals for new fees and charges **must** be analysed using the guidance set out in the Fees and Charges Policy. This guidance is to be used as the authorisation process for the setting of fees and charges and **must** be authorised by an authorised officer in accordance with the Constitution and Scheme of Delegation.

- 10.1.3 Chief Officers must ensure that all relevant charges are clearly displayed at service payment points. Employees must charge all people using the service the approved amounts.

- 10.1.4 All VAT due should be correctly identified and accounted for.

**CONTACT:** Director of Finance

### 10.2 Receiving Payment

- 10.2.1 The Council accepts payment by cheque, debit card, credit card and cash (cash is only accepted at certain locations). Officers handling payments must follow the procedures below and any local procedures, including those needed for computerised systems. They must complete all records fully and accurately at the time. Chief Officers must ensure adequate local procedures are in place at all stages, having sought necessary advice from the Executive Director Corporate Services.

- 10.2.2 Ideally, subject to adequate controls, income should be received in advance or at the time of service provision.

- 10.2.3 Where possible, a forged note detector should be used.
- 10.2.4 Cash drawers should be closed in between transactions.
- 10.2.5 Supervisory keys for cash registers should be held by supervising officers and not by cashiers.
- 10.2.6 All voids, refunds and exceptions should be reviewed by the supervising officer and this review should be evidenced.

#### All Methods

- 10.2.7 The officer must immediately issue an official receipt or ticket. Change may only be given for payment of cash.
- 10.2.8 All official receipts should be properly controlled and accounted for.
- 10.2.9 All official receipts should be in a format approved by the Executive Director Corporate Services.
- 10.2.10 Transfers of cash between staff must be evidenced by signature of both staff involved and a copy retained by the transferor.

#### Cheque Payment Against An Invoice/Account

- 10.2.11 The officer must ensure the cheque is:
  - a) Made payable to "Tamworth Borough Council" (and should be crossed account payee only);
  - b) Dated correctly;
  - c) The correct amount;
  - d) Signed;And the officer must:
  - e) Record on the back of the cheque the receipt number (and location if necessary) and payment/invoice reference.

#### Cheque – Other Payment

- 10.2.12 As well as the above requirements the officer must ensure:
  - a) The cheque is signed at the counter;
  - b) The cheque card is presented with
    - The same signature
    - The same code number as the cheque
    - A valid expiry date
    - A limit sufficient to cover the chequeAnd the officer must:
  - c) Record the card number on the back of the cheque.

#### Debit and Credit Cards

10.2.13 For payments in person the officer must ensure:

- a) The card has not expired;
- b) The receipt signature matches the card signature;
- c) The card is not on a current stop listing (or if so, follow the instructions with the listing);
- d) The receipt number is recorded against the transaction;
- e) The credit card surcharge is recovered in line with approved policy.

10.2.14 For telephone payments the officer must ensure:

- a) That payments are processed at the time of call;
- b) All relevant security checks are completed.

**CONTACT:** Operations Accountant

### 10.3 Postal Payments

10.3.1 All post is to be opened centrally in the designated post room. Exceptions to this include private and confidential post and where it is deemed that post should not be opened.

10.3.2 Post must only be opened when two officers are present.

10.3.3 All income received through the post should be recorded immediately on to the cash receipting system.

**CONTACT:** Head of Customer Service

### 10.4 Cashing-Up Procedures

10.4.1 At each payment point, the Chief Officer must ensure there are adequate daily cashing-up procedures. The two stages should be carried out by two different employees. The cashier should total the contents of the till and, by deducting the cash float, find out the day's takings. A second officer should confirm the actual cash takings with the total takings recorded on the receipts given out. Signatures of both officers involved should be recorded on the paying in slip. The local supervisor must immediately investigate any material discrepancies and advise the Chief Officer, the Executive Director Corporate Services and the Head of Internal Audit Services. All discrepancies must be recorded in a cashier's over/unders book, signed daily by the supervisor.

**CONTACT:** Head of Internal Audit Services

## 10.5 Depositing Money

- 10.5.1 All money received must be banked direct. Employees must follow guidance from the Executive Director Corporate Services on cash collection, control, deposit and records.
- 10.5.2 Chief Officers/employees must ensure that all money received is deposited in full, without anything being deducted. For example cash from a till must never be used to meet petty cash expenses or to top-up petty cash.
- 10.5.3 If there is a need to depart from this rule, the Chief Officer must give the written authorisation of the Executive Director Corporate Services.
- 10.5.4 Takings should be banked daily. Where this is not practicable Chief Officers may agree an alternative arrangement with the Executive Director Corporate Services, provided:
- a) Takings are banked at least weekly; and
  - b) Maximum cash holdings specified by the Executive Director Corporate Services (for insurance purposes) are not exceeded.
- 10.5.5 The cashier must prepare a daily cash summary/ return and attach relevant till readings or equivalent. The return must detail the amount of cash and the amount in cheques. A supervising officer must verify this return.
- 10.5.6 Chief Officers must in any event ensure maximum cash holdings are not exceeded.
- 10.5.7 The cashier must certify the paying in slip, which should be checked and evidenced by a supervising officer.
- 10.5.8 Where banking bags are used, seals and the authority's details should be recorded in accordance with the collection company's procedures.

**CONTACT:** Operations Accountant

## 10.6 Money Laundering

- 10.6.1 Money laundering is the term used for a number of offences involving the proceeds of crime and terrorist funds. The following acts constitute the act of money laundering:
- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, or from Scotland, or from Northern Ireland;
  - Becoming concerned in an arrangement in which someone knowingly suspects or facilitates the acquisition, retention, use or

control of criminal property by or on behalf of another person;

- Acquiring, using or possessing criminal property.

10.6.2 Although the term “money laundering” is generally used when describing the activities of organised crime – for which the legislation and regulations were first and foremost introduced – to most people who are likely to come across it or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

10.6.3 A likely indicator that money laundering may be taking place is the deposit of large amounts of cash. **To help prevent money laundering, the Council has set a cash payment of £5,000. No cash payments above £5,000 are to be accepted by any Council service.** Any large cash payments that raise concern below this amount should be brought to the attention of the Solicitor to the Council, however attempt to pay above this amount must be approved by the Solicitor to the Council or, the Executive Director Corporate Services.

10.6.4 The Council will do all it can to prevent, wherever possible, the organisation and its staff from being exposed to money laundering to identify potential areas where it may occur, and to comply with all legal and regulatory requirements; especially with regard to the reporting of actual or suspected cases. However, it is every member of staff’s responsibility to be vigilant.

10.6.5 The Solicitor the Council is the nominated officer to act as the Council’s Money Laundering Reporting Officer.

10.6.6 If a case of money laundering is suspected, the Solicitor to the Council should be consulted immediately.

**CONTACT:** Solicitor to the Council

## 10.7 Invoices, Debtors and Other Sums Due

10.7.1 It is the responsibility of each Service Unit to ensure that income for services etc is received prior to the service being completed. Where payment in advance is not possible, all necessary information in order to raise an account should be obtained from the customer prior to the provision of the service, except where statute dictates otherwise.

10.7.2 All Service Units must maintain a record of why the account has been raised. All accounts must be accurately created either prior to the service being delivered or, in the case of post-service charging, within 5 working days of the delivery of the service. Where possible, debtor accounts should not be raised for less than £100 in accordance with the Corporate Credit Policy.

- 10.7.3 It is essential that all accounts issued are timely; therefore, accounts raised after the service has been completed should be raised within five working days.
- 10.7.4 Timescales for the recovery process are detailed in the Corporate Credit Policy.
- 10.7.5 At the start of each financial year, Chief Officers must promptly supply information to the Executive Director Corporate Services on amounts due where a debtors account has not yet been raised for the previous financial year within the required deadlines.

Credit Policy

- 10.7.6 Cabinet, on 25 April 2007, approved a new Corporate Credit Policy . Chief Officers must ensure appropriate local guidance is in place and employees must follow the Policy and the local guidance.

**CONTACT:** Head of Revenues

**10.8 Debt Write-Off**

- 10.8.1 Debts can only be written-off in line with the appropriate policy – e.g., the Corporate Credit Policy.
- 10.8.2 Except where an approved policy dictates otherwise, the following authorisations are needed to write-off debt:

<u>Authority</u>	<u>Limit</u>
Chief Officer (or authorised delegated officer)	Up to £5,000
Executive Director Corporate Services	£5,001 - £10,000
Cabinet	Over £10,000

Note that these limits apply to each transaction.

All write-offs should be completed with adherence to the Accounts & Audit Regulations 2011.

An annual report of write-offs between 5,001 and £10,000 should be submitted to Council for information.

**CONTACT:** Head of Revenues

## 11 Assets and Equipment

An up to date asset register is a pre requisite for proper fixed asset accounting and sound asset management. Assets need to be valued in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: (CIPFA/LASAAC based on International Financial Reporting Standards)*. Any assets purchased with a value of over £10,000 should be notified in writing to the Executive Director Corporate Services so that they can be added to the asset register.

**CONTACT:** Director of Finance

### 11.1 Responsibilities

11.1.1 Each Chief Officer is responsible for the records, use and storage of all assets and equipment within their control and/or used in their service delivery. Each Chief Officer must ensure that a physical check of all significant assets and equipment is undertaken on at least an annual basis to confirm their location and condition and to ensure that inventory records are accurate. This check should be evidenced.

11.1.2 Each Chief Officer must ensure that inventory records are maintained for all assets and equipment in any format specified by the Executive Director Corporate Services, to ensure the details shown below are included in each case and that all appropriate items are clearly and securely marked.

Inventory details:

- Description
- Purchase date
- Purchase price
- Serial number (if applicable)
- Asset number (if applicable)
- Condition
- Date of disposal

11.1.3 Chief Officers should ensure that contingency plans for the security of assets and continuity of service in the event of a disaster or system failure are in place.

11.1.4 In order to comply with the International Financial Reporting Standards, managers are required to consult with the Executive Director Corporate Services prior to entering into an agreement on **any rentals, leases or use of assets to or from the authority**, especially where financial/operating leases are entered into as more advantageous financing could be sought.

**CONTACT:** Director Of Finance



## 11.2 Scope

- 11.2.1 All furniture, fittings, equipment and plant and machinery with an original and individual value of £50 or more should be included, with the sole exception of Information Technology (IT) hardware and software, which must be recorded by the Director Technology & Corporate Programmes. Chief Officers should consider whether it is appropriate to include other items of a portable and desirable nature which may have a lower value.
- 11.2.2 Any change in the use or location of any IT hardware and software must be completed by the Technology & Corporate Programmes Service who will update their records accordingly.

## 11.3 Use

- 11.3.1 Items are only to be used on Council business and in line with accepted procedures and manufacturers instructions, and must not be removed without the specific approval of the Chief Officers.

## 11.4 Disposal

- 11.4.1 The disposal of all surplus items must be in line with the following guidelines which should be applied by:
- a) The Director Technology & Corporate Programmes for all IT equipment;
  - b) The Chief Officer for all other items;
  - c) The Executive Director Corporate Services for all other items with a value in excess of £1,000.
- 11.4.2 Each Chief Officer must record the disposal details on the inventory records and must maintain adequate records such as receipts and formal bids. Disposals should be notified to the Executive Director Corporate Services to ensure that appropriate accounting entries are made to remove the value of disposed assets from the authority's records and to include the sale proceeds if appropriate.

### Disposal Guidelines

- 11.4.3 A disposal policy is in place for the disposal of land and property (Asset Disposal Policy). The Asset Disposal Policy must be followed in these instances.

The disposal of any other surplus assets or equipment should be arranged in the manner most useful to the Council, taking into account the value, condition and usefulness of the item. Further guidance is appended.

11.4.4 All IT equipment must be passed to the Technology & Corporate Programmes Service for disposal to ensure that all information retained on disk drive is deleted in accordance with the Data Protection Act 1998.

11.4.5 Particular care must be taken to ensure the Council is not exposed to risk, for example by passing on unsafe items to another body. Any internal sale must be scrupulously fair and open. The guide to the disposal of assets (excluding land and buildings) is appended to this guidance. Advice is available from the Head of Internal Audit Services or Director Assets & Environment.

**CONTACT:** Director of Finance, Head of Internal Audit Services, Director of Assets & Environment

## 12. Stocks & Stores

### 12.1 Responsibilities

12.1.1 The aim of controls over stocks and stores is to ensure:

- a) Necessary materials are available when they are needed;
- b) Purchase costs are minimised;
- c) Stock holding costs are minimised;
- d) Waste and other loss is minimised;

To achieve this Chief Officers must ensure:

- a) The correct quantities are purchased at the correct times (to gain discounts and avoid delivery and administration costs);
- b) Excessive levels are not held (taking account of shelf life, storage costs and service needs);
- c) Stocks are held and handled securely;
- d) Adequate records are maintained including:
  - i) purchases and additions
  - ii) issues
  - iii) write-offs.

12.1.2 The Executive Director Corporate Services can advise on these matters, particularly on the financial records.

12.1.3 Chief Officers must also ensure that movements of stores are properly authorised and documented and that the records note the employee(s) involved in the process. The Head of Internal Audit Services can advise on these aspects.

**CONTACT:** Head of Internal Audit Services

### 12.2 Stocktaking

12.2.1 **All** stock must be checked at least once a year at the end of the financial year in order to compare actual levels to recorded levels and Chief Officers should consider more frequent checks of valuable, desirable and portable items. Large stores, such as those held at the depots, could achieve this by an agreed process of rolling stocktakes. The Head of Internal Audit Services will advise if necessary.

12.2.2 Stocktakes must be monitored and checked by employees who are independent of the storekeeping roles. This checking role must include the comparison of actual stocks to the recorded levels.

12.2.3 All discrepancies should be investigated by the line manager. Any material discrepancies (over £100 or desirable commodities) should be reported to the Executive Director Corporate Services who will advise

on the appropriate procedures to follow, and who may inform the Head of Internal Audit Services of the facts.

**CONTACT:** Head of Internal Audit Services

### 12.3 **Obsolete and Unserviceable stock**

12.3.1 The disposal of stocks and stores should be in line with the guidance contained in the section on Assets and Equipment.

12.3.2 Obsolete/damaged stock should be written off prior to year-end and should not be included in year-end stock balances.

### 12.4 **Intellectual Property**

12.4.1 Intellectual property is a generic term that includes inventions and writing. If these are created by the employee during the course of employment, then, as a general rule, they belong to the employer, not the employee. Various acts of Parliament cover different types of intellectual property.

12.4.2 Certain activities undertaken within the Authority may give rise to items that may be patentable, for example, software development. These items are collectively known as intellectual property.

12.4.3 Chief Officers must ensure that controls are in place to ensure that staff do not carry out private work in Council time and that staff are aware of an employer's rights with regard to intellectual property.

**CONTACT:** Head of Internal Audit Services, Director Technology & Corporate Programmes

### 13. Security

- 13.1 All staff must wear their ID pass at all times within Council establishments. Identification should be requested for all visitors to Council establishments. Where applicable, visitors must sign the visitors book both on entry and exit of the building. If appropriate, the visitor must be provided with an identification badge which must be returned on departure. The person issuing the badge should ensure that the badge is returned.
- 13.2 All temporary identification badges should be retained securely.
- 13.3 All building alarms should be linked to the Police Station or directly to the alarm company. Managers should ensure that these links are maintained.
- 13.4 The knowledge of alarm codes should be restricted to relevant staff. Each member of staff must have their own ID for the alarm. If a member of staff leaves the Authority, their ID should be deleted from the system.
- 13.5 Alarm usage reports should be generated on a regular basis. These reports should be reviewed by management who must evidence this review.
- 13.6 All cash handling areas should be secured. All access to cash areas should be locked and access restricted to authorised staff.
- 13.7 Safes should be located out of sight of the public and should be locked at all times. Access to safes must be restricted to authorised personnel. Each member of staff needing access to the safe must be issued with a key. The issue of safe keys should be documented detailing the date issued and the holder. The holder must sign for the receipt of the key. Safe keys **must not** be retained on the premises overnight. Retention of safe keys on unoccupied premises renders the insurance invalid.
- 13.8 Any transfer of keys between staff should be recorded. On termination or transfer of employment, all keys issued to that member of staff should be handed back to the line manager. The key register should be updated to reflect the hand over.
- 13.9 Managers are responsible for ensuring that the cash limit for the safe is not exceeded.
- 13.10 Where a cash collection company is used, managers are responsible for ensuring that the names and signatures of the cash collection staff are up to date.
- 13.11 Further guidance on physical and environmental security is contained within the Information Security Policy.

**CONTACT:** Director of Assets & Environment

## 14. Data Quality

- 14.1 All employees have a responsibility for ensuring the information we process is accurate and up to date. The Data Quality Policy addresses this.
- 14.2 The consequence of poor quality of data impacts not only the way the Council works, but also anyone who conducts their business with us.
- 14.3 Data Quality Standards possess six essential characteristics, these are:
- **Completeness** – Data quality systems should have in place monitoring to ensure that no data is missing, incomplete or invalid records included.
  - **Accurate** – Data should be accurate for the purpose it is intended, and to be captured as close to the source as possible.
  - **Validity** – Data should be compliant with requirements and within the parameters laid down in any criteria.
  - **Reliability** – Data should be consistent across all collection points and over time. Appropriate controls should be in place to check outputs/inputs, sampling and is compliant with the criteria set out.
  - **Timeliness** – Data should be captured as soon as possible, and available to recipients within the agreed timeframe.
  - **Relevance** – Data captured should be relevant to the purpose for which it is used. Reviews need to take place to ensure the quality reflects any changing needs.

**CONTACT:** Corporate Information Security Manager

## 15 Equality Impact Assessment

<b>Is this a new or existing policy?</b>	Existing
<b>1. Briefly describe the aims, objectives and purpose of the policy?</b>	To promote best value, service delivery and delivery of the Council's vision; To provide sound arrangements for all the Council's financial affairs and to be able to demonstrate that proper controls are in place; To safeguard Members and officers by setting out procedures which meet the Council's expected standards.
<b>2. Are there any associated policy/ procedure/ practice which should be considered whilst carrying out this equality impact assessment?</b>	
<b>3. Who is intended to benefit from this policy and in what way?</b>	TBC Employees Council – improved efficiency, increased resilience Council customers – VFM
<b>4. What are the desired outcomes from this policy?</b>	Transparency, consistency of application
<b>5. What factors/ forces could contribute/ detract from the outcomes?</b>	Different management interpretations of the guidance ICT not available
<b>6. Who are the main stakeholders in relation to the policy?</b>	All employees and Chief Officers of TBC, members, contractors, partners and residents

	of the borough		
<b>7. Which individuals/ groups have been/ will be consulted with on this policy?</b>	Chief Officers, members		
<b>8. Are there concerns that the policy <u>could</u> have a differential impact on racial groups?</b>		<b>N</b>	
<b>9. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to gender?</b>		<b>N</b>	
<b>10. Are there concerns that the policy <u>could</u> have a differential impact due to them being transgender or transsexual?</b>		<b>N</b>	
<b>11. Are there concerns that the policy <u>could</u> have a differential impact due to disability?</b>		<b>N</b>	
<b>12. Are there concerns that the policy <u>could</u> have a differential impact due to sexual orientation?</b>		<b>N</b>	
<b>13. Are there concerns that the policy <u>could</u> have a differential impact due to age?</b>		<b>N</b>	
<b>14. Are there concerns that the policy <u>could</u> have a differential impact due to religious belief?</b>		<b>N</b>	
<b>15. Are there concerns that the policy <u>could</u> have a differential</b>		<b>N</b>	

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<b>impact on Gypsies/ Travellers?</b>			
<b>16. Are there concerns that the policy <u>could</u> have a differential impact due to dependant/caring responsibilities?</b>		<b>N</b>	
<b>17. Are there concerns that the policy <u>could</u> have a differential impact due to them having an offending past?</b>		<b>N</b>	
<b>18. Are there concerns that the policy could have an impact on children or vulnerable adults?</b>		<b>N</b>	
<b>19. Does any of the differential impact identified cut across the equality strands (e.g. elder BME groups)?</b>		<b>N</b>	
<b>20. Could the differential impact identified in 8 – 19 amount to there being the potential for adverse impact in this policy/ procedure/ practice?</b>		<b>N</b>	
<b>21. Can this adverse impact be justified:</b> <ul style="list-style-type: none"> <li>• on the grounds of promoting equality of opportunity for one group?</li> </ul>	<b>Y</b>	<b>N</b>	<b>N/A</b>

• For any other reason?			
22. As a result of carrying out the equality impact assessment is there a requirement for further consultation?		<b>N</b>	
23 As a result of this EIA should this policy be recommended for implementation in its current state?	<b>Y</b>		

WEDNESDAY, 28 MARCH 2018

**REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES**

**INTERNAL AUDIT PLAN & CHARTER**

**EXEMPT INFORMATION**

None

**PURPOSE**

To advise Members of the proposed Internal Audit Charter and Plan for 2018-2019, to provide Members with assurance on the appropriate operation of Internal Audit.

**RECOMMENDATIONS**

**That the Committee endorses the attached Internal Audit Charter and Plan 2018-2019 and raises any issues it deems appropriate.**

**EXECUTIVE SUMMARY**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

The consideration and approval of an appropriate Internal Audit Charter and Plan by Members is an important element in providing assurance to the organisation that adequate arrangements are in place to provide the expected independent, objective opinion. The Charter complies with the Public Sector Internal Audit Standards (effective 1<sup>st</sup> April 2013).

In accordance with good practice, the Head of Internal Audit Services has consulted members of Corporate Management Team, to ensure current and proposed developments/projects and risks are identified, and has built these into an evaluation of the priority of the different potential areas for audit review. A proposed Audit Plan for 2018–19 is attached at **Appendix B**. The Audit Plan constitutes the main operational delivery of the Internal Audit Service as part of its Internal Audit Charter, which, in turn sets out how the service proposes to meet statutory and professional requirements. The Charter is attached at **Appendix A**.

Members will recall that the Committee's Terms of Reference include the function to "receive, but not direct, internal audit's plan". This report aims to provide members of the Committee with such an opportunity.

## **RESOURCE IMPLICATIONS**

None

## **LEGAL/RISK IMPLICATIONS BACKGROUND**

If a thorough risk-assessed, adequately-resourced audit plan is not in place the Authority will fail to comply with statutory requirements and will not be able to provide the appropriate assurance on the internal control environment.

Internal Audit has reviewed the risks to the effective delivery of its functions and has in place appropriate steps to ensure delivery.

## **SUSTAINABILITY IMPLICATIONS**

None

## **BACKGROUND INFORMATION**

None

## **REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services, ex 234

## **LIST OF BACKGROUND PAPERS**

None

## **APPENDICES**

**Appendix A – Internal Audit Charter 2018/19**

**Appendix B – Internal Audit Plan 2018/19**



## INTERNAL AUDIT CHARTER

Document Status: Draft

Originator: A Struthers

Updated: A Struthers

Owner: A Struthers

Version: 01.01.06

Date: 13/03/18

## Document Location

This document is held by Tamworth Borough Council, and the document owner is Angela Struthers.

Printed documents may be obsolete. An electronic copy will be available on Tamworth Borough Councils Intranet. Please check for current version before using.

## Revision History

Revision Date	Version Control	Summary of changes
25/01/13	1.01.01	1 <sup>st</sup> draft
05/03/14	1.01.02	Review
04/03/15	1.01.03	Annual review
20/11/15	1.01.04	Review
08/03/17	1.01.05	Review
13/03/18	1.01.06	Review

## Approvals

Name	Title	Signature	Date
Audit & Governance Committee	Committee Approval		
Andrew Barratt	Corporate Management Team Approval		
John Wheatley	Executive Director Corporate Services		
Angela Struthers	Head of Internal Audit Services		

## Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

## Distribution

The document will be available on the Intranet and the website.

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## 1 Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (IIA – UK & Ireland)

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrate competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

This Charter will be periodically reviewed in consultation with senior management and the board. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The following posts will be designated as shown below in order to comply with the PSIAS.

<b>Post</b>	<b>Designation</b>
Audit & Governance Committee	Board
Corporate Management Team	Senior Management
Chief Executive	Head of Paid Service
Head of Internal Audit Services	Chief Audit Executive

The Chief Audit Executive will report conformance to the PSIAS in the annual report to the Board.



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## 2 Mission Statement of Internal Audit

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

## 3 Purpose and Statutory Requirements

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the board, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Executive Director Corporate Services to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

*"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."*

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

## 4 Objectives

The Chief Audit Executive's responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

This information can be produced on request in other formats and languages

It does this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).
- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

## **5 Role and Scope of Work**

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;

- 
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
  - Monitoring the degree of coordination of internal audit and external audit;
  - Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
  - Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
  - Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
  - Evaluating specific operations at the request of management, as appropriate;
  - Support management upon the design of controls at appropriate points in the development of major change programmes.

With regard to Risk Management, internal audit will carry out individual risk based engagements to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

Internal audit operate in an advisory capacity to:

- Report upon the level of risk maturity and scope for improvement;
- Facilitate the identification and assessment of risks;
- Coach management in responding to risks.

The CAE is responsible for:

- Developing the corporate risk management strategy in liaison with the Management Teams and Service Units;
- Promoting support and overseeing its implementation across the Council;
- Monitoring and review of the effectiveness of the risk management strategy;
- Assisting with the identification and communication of risk management issues to Units;
- Advising Corporate and Unit management teams on strategic and operational implications of risk management decisions;
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

With regard to Counter fraud activity, internal audit will carry out the following activities:

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy

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- 
- Evaluate preventative and detective controls
  - Review control weaknesses that led to the fraud
  - Review of the fraud risk assessment
  - Provide support in the ethical and anti-fraud and corruption culture
  - Share learning
  - Champion the development of counter fraud capability
  - Receive whistleblowing referrals
  - Use data analytics to identify fraud
  - Review of NFI matches
  - Lead on a fraud and corruption risk assessment
  - Develop the counter fraud and corruption strategy
  - Undertake investigations

## **6 Proficiency and Due Professional Care**

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Tamworth Borough Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and

- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the formation of internal audit plans, the CAE can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

## **7 Authority**

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Tamworth Borough Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

## **8 Organisation**

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Executive Director Corporate Services.

The Board will receive performance reports on the internal audit function on a quarterly basis.

## **9 Independence and Objectivity**

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of IA team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Head of Paid Service and the Board.

The Chief Audit Executive will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

This information can be produced on request in other formats and languages

## 10 Internal Audit Plan

At least annually, the Chief Audit Executive will submit to Senior Management and the Board an internal audit plan for review and approval.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Board.

Approval will be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated eg allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

## 11 Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be

This information can be produced on request in other formats and languages

distributed as appropriate with executive briefing reports issued to the Chief Operating Officer, Chief Finance Officer, Head of Paid Service and the Monitoring Officer. A summary of the internal audit results will be communicated to the Board.

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up the recommendations made to ensure that management have implemented them in the agreed timescales. This will be completed within six months from the finalisation of the audit. An additional implementation review will be carried out where high priority recommendations remain outstanding or a significant number of recommendations remain outstanding. Internal Audit will not complete any additional implementation reviews on recommendations that remain outstanding at this stage. It is management's responsibility to ensure that the agreed actions are implemented. All outstanding recommendations will remain open on the Pentana system for management to complete.

Results of implementation reviews will be communicated as appropriate with copies to the Chief Operating Officer, Chief Finance Officer, Head of Paid Service and the Monitoring Officer. A summary of the results will be reported to the Board.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Board.

## **12 Quality Assurance and Improvement Programme**

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will periodically report to the Board on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

In addition, the Chief Audit Executive will communicate to Senior Management and the Board on the internal audit service's quality assurance and improvement programme, including results of ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Board.

Signed by

Chief Audit Executive (Head of Internal Audit Services)

Chairman of the Board (Chair of the Audit & Governance Committee)



## INTERNAL AUDIT PLAN - 2018/19

AREA OR SUBJECT OF REVIEW Risk Rating

### KEY FINANCIAL SYSTEMS

MAIN ACCOUNTING & BUDGETARY CONTROL	Medium
TREASURY MANAGEMENT	Medium
CREDITORS & PROCUREMENT	Medium
DEBTORS	Medium
COUNCIL TAX	Medium
NNDR	Medium
PAYROLL	Medium
BANK REC & CASH	Medium
HOUSING & COUNCIL TAX BENEFITS	Medium
CAPITAL STRATEGY & PROGRAMME MANAGEMENT	Medium
HOUSING RENTS	Medium
CAPITAL CONTRACTS	High
HOUSING RESPONSIVE REPAIRS	High

### STRATEGIC & OPERATIONAL RISKS

Organisation transformation	Medium
Health & Safety	Medium
Taxi licences	Medium
Community safety	Medium
CCTV	Medium
Training and development	Medium
Housing regeneration & affordable housing	Medium
Food safety	Medium
Tourism & town centre	Medium
PR & Communications	Medium
Sheltered housing	Medium
Outdoor events	Medium
TIC	Medium
Safeguarding	Medium
Parks and open spaces, nature reserves and sports pitches	Medium
Community leisure	Medium
Committee decision & reporting	Medium
Mobile phones	Medium
Licences	Medium

### ICT AUDIT REVIEWS

Pentana Application review	Medium
Academy application review	Medium

Self service technology	Medium
GDPR	High
Cloud	High
Social Media	Medium
<i>I Trent application review</i>	Medium

**CONSULTANCY**

Commercialism	Medium
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**IMPLEMENTATION REVIEWS**

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**ANNUAL GOVERNANCE & ASSURANCE FRAMEWORK**

ANNUAL GOVERNANCE STATEMENT	HIGH
ANNUAL AUDIT OPINION	HIGH
ANNUAL AUDIT PLANNING & REVIEW	HIGH
INTERNAL AUDIT QUALITY ASSURANCE & IMPROVEMENT	HIGH
REVIEW OF FINANCIAL GUIDANCE	HIGH

**REVIEW WORK COMPLETED ON BEHALF OF STAFFORDSHIRE COUNCIL**

PENSION CONTRIBUTIONS	MEDIUM
DFG	MEDIUM

**CORPORATE SUPPORT**

- GOVERNANCE TRAINING
- AUDIT & GOVERNANCE COMMITTEE SUPPORT
- EXTERNAL AUDIT LIAISON
- CONTINGENCY

**TOTAL AUDIT DAYS**

Approvals

<b>Name</b>
Audit & Governance Committee - Chair
CMT - Chief Operating Officer



Audit type	days allocated	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - full	12	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - interim	5	
Key Financial System - annual testing	12	
Key Financial System - annual testing	20	94

System based review	10	
System based review	8	
Risk based review	8	
Risk based review	10	
Risk based review	8	
Risk based review	8	
Risk based review	12	
Risk based review	8	
System based review	8	
System based review	8	
Risk based review	8	
Risk based review	8	
System based review	8	
System based review	8	
System based review	12	
Risk based review	8	
System based review	8	
System based review	8	
System based review	8	

164

IT Audit	8	
IT Audit	8	

IT Audit	8	
IT Audit	10	
IT Audit	8	
IT Audit	8	
IT Audit	7	

**57**

10

**10**

30

**30**

Assurance work	13	
Assurance work	3	
Assurance work	6	
Assurance work	8	
Assurance work	2	

**32**

**ITY COUNCIL**

SUBSTANTIVE TESTING	7	
SUBSTANTIVE TESTING	5	

**12**

5

15

2

17

**39**

**438**

Signature	Date



WEDNESDAY, 28 MARCH 2018

**REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES**

**RISK MANAGEMENT UPDATE**

**EXEMPT INFORMATION**

None

**PURPOSE**

To report on the Risk management process and progress to date for the current financial year.

**RECOMMENDATIONS**

**That the Committee endorses the report.**

**EXECUTIVE SUMMARY**

One of the functions of the Audit & Governance Committee is to monitor the effectiveness of the Authority's risk management arrangements, including the action taken to manage risks and to receive regular reports on risk management. Corporate risks are identified, managed and monitored by the Corporate Management Team (CMT) on a quarterly basis and reported to this Committee.

CMT are currently undertaking a fundamental review of the corporate risk register, and the updated corporate risk register will be presented to the next meeting of this Committee.

**RESOURCE IMPLICATIONS**

None

**LEGAL/RISK IMPLICATIONS BACKGROUND**

None

**SUSTAINABILITY IMPLICATIONS**

None

**BACKGROUND INFORMATION**

None

**REPORT AUTHOR**

Angela Struthers, Head of Internal Audit Services, ex 234

**LIST OF BACKGROUND PAPERS**

None

**APPENDICES**

None



WEDNESDAY, 28 MARCH 2018

**REPORT OF THE HEAD OF INTERNAL AUDIT SERVICES**

**AUDIT & GOVERNANCE COMMITTEE SELF-ASSESSMENT**

**EXEMPT INFORMATION**

None

**PURPOSE**

To complete a self-assessment of the effectiveness of the Audit & Governance Committee and produce an improvement action plan if required.

**RECOMMENDATION**

**That members of the Committee complete the self-assessment checklist at Appendix A in order to formulate an improvement plan if required.**

**EXECUTIVE SUMMARY**

To ensure that effective governance arrangements exist, the authority is required to review the effectiveness of the system of internal control. Part of this review includes the review of the effectiveness of the Audit & Governance Committee.

The attached self-assessment questionnaire contains questions from the CIPFA guidance on how to measure the effectiveness of the Audit & Governance Committee plus additional appropriate questions. The aim of the self-assessment questionnaire is to identify areas of compliance and areas where improvement may be required.

Members are requested to complete the questionnaire in order to formulate an improvement plan if required.

**RESOURCE IMPLICATIONS**

None

**LEGAL/RISK IMPLICATIONS BACKGROUND**

None

**SUSTAINABILITY IMPLICATIONS**

None

**BACKGROUND INFORMATION**

None

**REPORT AUTHOR**

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**LIST OF BACKGROUND PAPERS**

None

**APPENDICES**

Appendix A - Audit & Governance Committee Self-Assessment 2017/18

## Audit &amp; Governance Committee Self-Assessment 2017/18

	Area	Yes	No	Part
1	<b>Terms of Reference</b>			
1.1	Have the Committee's terms of reference been approved by the full Council and do they follow the CIPFA model?			
1.2	Does the Committee report directly to the Full Council on an annual basis?			
2	<b>Internal Audit Process</b>			
2.1	Does the Committee approve the strategic audit approach and the annual programme?			
2.2	Is the performance of Internal Audit reviewed regularly?			
2.3	Are summaries of quality questionnaires on the work of Internal Audit from managers reviewed?			
2.4	Does the Committee receive the Internal Audit Annual Report which includes an opinion and information on conformance with the Public Sector Internal Audit Standards?			
2.5	Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?			
3	<b>External Audit Process</b>			
3.1	Are reports on the work of External Audit and other inspection agencies presented to the committee?			
3.2	Does the Committee input into the external audit programme?			
3.3	Does the Committee monitor management actions in response to the issues raised by the External Auditor?			

	Area	Yes	No	Part
4	<b>Regulatory Framework</b>			
4.1	<p>Does the Committee take a role in overseeing</p> <ul style="list-style-type: none"> <li>• Risk management strategies and the actions taken to manage the risks</li> <li>• Annual Governance Statement</li> <li>• Counter-fraud arrangements – including the Counter Fraud Policy and Whistleblowing Policy</li> <li>• Financial Guidance – including Financial Regulations &amp; Contract Standing Orders</li> <li>• Constitution</li> <li>• Complaints handling/ombudsman's report</li> <li>• RIPA Policy and updates?</li> </ul>			
5	<b>Accounts</b>			
5.1	Does the Committee take a role in overseeing the annual statement of accounts?			
6	<b>Standards of Conduct</b>			
6.1	Does the Committee exercise all the functions of the Council relating to Codes of Conduct as provided by the Localism Act 2011 except for those that may only be exercised by Full Council?			
7	<b>Membership</b>			
7.1	Has the membership of the committee been formally agreed and a forum set?			
7.2	Is the chair free from executive or scrutiny (chair) functions?			
7.3	Are members sufficiently independent of the other key committees of the council?			

	Area	Yes	No	Part
7.4	Have all members' skills and experiences been assessed and training given for identifying gaps?			
7.5	Can the committee access other committees as necessary?			
8	<b>Meetings</b>			
8.1	Does the committee meet regularly?			
8.2	Are separate, private meetings held with the external auditor and internal auditor?			
8.3	Are meetings free and open without political influence being displayed?			
8.4	Are decisions reached promptly?			
8.5	Are agenda papers circulated in advance of meetings to allow adequate preparation by members?			
8.6	Does the committee have the benefit of attendance of appropriate officers at its meetings?			
8.7	Can special meetings be organised to allow a quick response to emergencies?			
8.8	Does External Audit regularly attend meetings and update members on their progress/external audit issues?			
9	<b>Training</b>			
9.1	Is induction training provided to members?			
9.2	Is more advanced training available as required?			

	Area	Yes	No	Part
10	<b>Administration</b>			
10.1	Does the authority's s151 officer or deputy attend meetings?			
10.2	Are key officers available to support the committee?			
10.3	Do reports to the Committee communicate relevant information at the right frequency and in a format that is effective?			