



Borough of Tamworth

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AUDIT AND GOVERNANCE COMMITTEE

22 March 2017

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 30th March, 2017 at 6.00 pm**. Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. G. ...', written over a circular stamp.

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 Informing The Audit Risk Assessment For Tamworth Borough Council
(Pages 5 - 30)

The Report of Grant Thornton (External Auditor)

5 Audit And Governance Committee Update For Tamworth Borough Council Progress Report And Update Year Ended 31 March 2017 (Pages 31 - 42)

The Report of Grant Thornton (External Auditor)

6 The Audit Plan For Tamworth Borough Council (Pages 43 - 62)

The Report of Grant Thornton (External Auditor)

7 Review Of The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement And Annual Investment Statement 2017/18 And The Treasury Management Strategy Statement And Annual Investment Strategy Mid-Year Review Report 2016/17 (Pages 63 - 132)

(The Report of the Executive Director Corporate Services)

8 Final Accounts 2016/17 – Action Plan (Pages 133 - 142)

(The Report of the Director of Finance)

9 Changes To The Cipfa Code Of Practice And Proposed Accounting Policies 2016/17 (Pages 143 - 182)

(The Report of the Director of Finance)

10 Standards Allegation Complaint (Pages 183 - 184)

(The Report of the Solicitor of the Council and Monitoring Officer)

11 Audit And Governance Committee Self Assessment (Pages 185 - 190)

(The Report of the Head of Internal Audit Services)

12 Internal Audit Charter And Plan 2017-18 (Pages 191 - 208)

(The Report of the Head of Internal Audit Services)

13 Audit And Governance Committee Timetable (Pages 209 - 212)

(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: J Chesworth, M Summers, C Cooke, J Faulkner, M Gant, R Kingstone
and J Oates

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MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD ON 9th FEBRUARY 2017

PRESENT: Councillors J Chesworth (Chair), M Summers (Vice Chair), C Cooke, J Faulkner, M Gant and J Oates

OFFICERS: John Wheatley (Executive Director Corporate Services), Angela Struthers (Head of Internal Audit) and Janice Clift (Democratic and Elections Officer)

VISITORS: Joan Barnett (Grant Thornton)

47 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor R Kingstone

48 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 27 October 2016 were approved and signed as a correct record.

(Moved by Councillor M Summers and seconded by Councillor M Gant)

49 DECLARATIONS OF INTEREST

There were no declarations of Interest.

50 AUDIT AND GOVERNANCE COMMITTEE UPDATE FOR TAMWORTH BOROUGH COUNCIL PROGRESS REPORT AND UPDATE YEAR ENDED 31 MARCH 2017

The Report of Grant Thornton (External Auditor) was considered

RESOLVED: That Members endorsed the report and thanks were given to the officers for their work involved.

(Moved by Councillor J Oates and seconded by Councillor M Gant)

51 CERTIFICATION WORK FOR TAMWORTH BOROUGH COUNCIL YEAR ENDED 31 MARCH 2016

The Report of Grant Thornton (External Auditor) was considered

RESOLVED: That Members endorsed the report and thanks were given to the officers for their work involved.

(Moved by Councillor J Oates and seconded by Councillor M Gant)

52 QUARTERLY RIPA REPORT FEBRUARY 2017

The Solicitor to the Council and Monitoring Officer reported on the Council's Code of Practice for carrying out surveillance under the Regulation of Investigatory Powers Act 2000 (RIPA) specifying that quarterly reports be taken to Audit and Governance Committee to demonstrate to elected members that the Council is complying with its own Code of Practice when using RIPA.

RESOLVED: That Members endorsed the RIPA monitoring report for the quarters to 30 September 2016 and to 31 December 2016.

(Moved by Councillor J Chesworth and seconded by Councillor C Cooke)

53 REGULATION OF INVESTIGATORY POWERS ACT 2000 ADOPTION OF POLICY AND PROCEDURE

The Solicitor to the Council and Monitoring Officer advised Members of the proposed amendments to the Corporate Policy governing the Regulation of Investigatory Powers Act 2000 in light of the new requirements introduced by recent legislative change and Home Office Guidance and seeking their consideration and recommendations in relation thereto.

RESOLVED: That Members

- 1 considered the changes to the RIPA policy on Directed Surveillance, Covert Human Intelligence Sources (CHIS) and Acquisition of Communications Data;
- 2 satisfied themselves that the changes meet the requirements imposed on the Council in terms of the

legislation and Codes of Practice;

3 provided comments as required; and

4 recommended approval to Cabinet and Council

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

54 COUNTER FRAUD UPDATE

The Head of Internal Audit Services provided Members with an update of Counter Fraud work completed during the financial year 2016/17.

RESOLVED:

That Members

1 considered this report and had no issues to raise;

2 endorsed the Fraud and Corruption Risk Register Summary; and

3 endorsed the Fraud Response Plan 2016/17

*(Moved by Councillor C Cooke and seconded by
Councillor J Faulkner)*

55 INTERNAL AUDIT UPDATE REPORT 2016/17

The Head of Internal Audit Services reported on the outcome of Internal Audit's review of the internal control, risk management and governance framework in the 3rd quarter of 2016/17 – and provided members with assurance of the on-going effective operation of an internal audit function and enable any particularly significant issues to be brought to the Committee's attention.

RESOLVED:

That Members considered the report and had no issues to raise

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

56 RISK MANAGEMENT UPDATE

The Head of Internal Audit Services reported on the Risk Management process and progress to date for the current financial year.

- RESOLVED:** That Members endorsed the
- 1 Corporate Risk Register; and
 - 2 Risk Management Action Plan

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

57 AUDIT AND GOVERNANCE COMMITTEE TIMETABLE

The Committee reviewed and agreed the timetable and also agreed for a meeting of the Committee to be held on 27 July 2017

Chair

Informing the audit risk assessment for Tamworth Borough Council

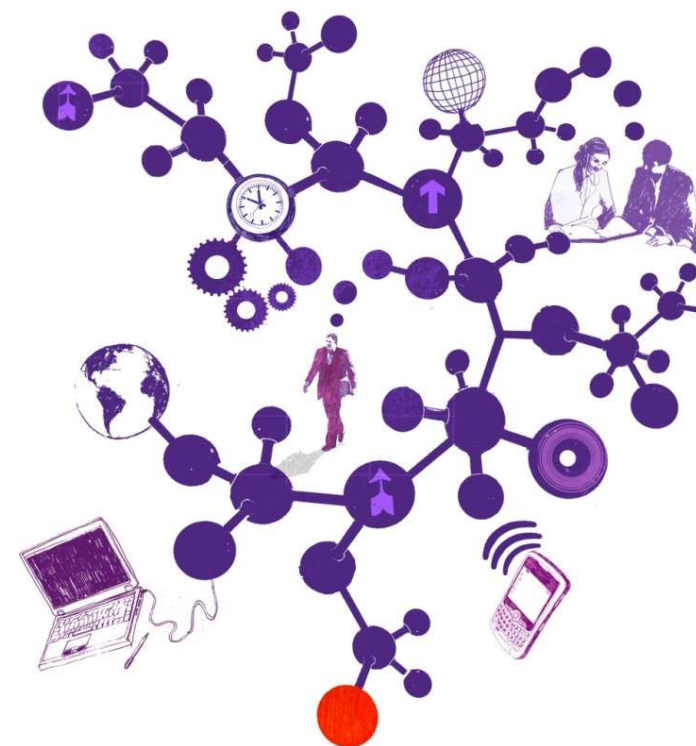
Year ended 31 March 2017

30 March 2017

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Agenda Item 4

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between external auditors and the Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern.
- Related Parties
- Accounting estimates

This report includes a series of questions on each of these areas and the responses we have received from the Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management.

Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error?</p> <p>What are the results of this process?</p>	<p><i>Management receive the following reports which have informed the Council that the risk of misstatement due to fraud or error is low:</i></p> <ul style="list-style-type: none"> • <i>Internal Audit's risk assessment arising from the reviews to inform the Annual Governance Statement.</i> • <i>Quarterly reports are received from the Head of Internal Audit Services (HIAS) on systems reviewed (including the key / core financial systems) within the quarter. High risk areas are identified. Follow-up of implementation of control risks are undertaken in a timely manner. HIAS gives an opinion on the system of internal control given quarterly.</i> • <i>An Annual Governance Statement. Assurance gathering process involves assessing against the objectives, manager's providing assurance statements and identifying key control issues affecting their operational processes;</i> • <i>External Audit Reports, including the assessment of controls as stated in the Annual Audit & Inspection Letter inform the conclusion on adequacy of the internal control process.</i> • <i>Financial Accounts reports / reviews identifying key areas of activity and where appropriate risk implications and variance analysis. This includes the review of draft accounts / analytical review (S151 & Deputy S151) and appropriate working papers where necessary.</i> • <i>The final account planning & compliance process gives assurance on the key accounting and review processes undertaken in the planned delivery of the final accounts. Copy of implementation plan agreed & monitored by members. The Final Account Delivery Plan (key actions, deliveries, implications & deadlines) identifies key deliverables and issues arising from the preparation process which are reported to CMT & Members.</i> • <i>Copy of Final Account documents (including previous year comparators). Material issues / explanations are reported to Audit & Governance Committee.</i> • <i>Advice / information on changes in Accounting Policy that impact on the financial statements (including issues affecting comparator variances).</i>

Fraud risk assessment (continued)

Question	Management response
Continued...	<ul style="list-style-type: none"> • <i>Compliance reviews are undertaken to the accounting code of practice (IFRS).</i> • <i>External Audit report to the Audit & Governance Committee on their reliance placed on the work of Internal Audit. This therefore increases reliance on the standard and quality of audit reports and their review of control systems.</i>
<p>How are the Audit and Governance Committee satisfied that the overall control environment is robust. In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 11</p>	<p><i>The Audit and Governance Committee receives various reports that satisfy them that the control environment is robust.</i></p> <ul style="list-style-type: none"> • <i>Internal Audit's risk assessment arising from the reviews to inform the Annual Governance Statement.</i> • <i>Quarterly reports are received from the Head of Internal Audit Services (HIAS) on systems reviewed (including the key / core financial systems) within the quarter. High risk areas are identified. Follow-up of implementation of control risks are undertaken in a timely manner. HIAS opinion on the system of internal control given quarterly.</i> • <i>An Annual Governance Statement. The assurance gathering process involves assessing against the objectives, manager's providing assurance statements identifying key control issues affecting their operational processes.</i> • <i>External Audit Reports, including the assessment of controls as stated in the Annual Audit & Inspection Letter inform the conclusion on adequacy of the internal control process.</i> <p><i>Counter Fraud & Corruption & Whistleblowing policies are in place (reviewed 2015 – Audit & Governance Committee 29th October 2015) – a review is due early in 2017.</i></p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	<p><i>Internal Audit maintain a fraud risk register which is updated quarterly. We are aware of areas where risk of fraud has increased (e.g. changes to creditor bank details). Staff working in this area are aware of the increased risk and an e-learning package is being developed including counter fraud and whistleblowing (data protection training has been rolled out). The counter fraud and whistleblowing training will be developed during 17/18. There are not many areas where cash is handled; this happens only at the castle or the Tourist Information Centre and no concerns have been highlighted by work undertaken there.</i></p>

Fraud risk assessment (continued)

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 12</p>	<p><i>Yes: the internal controls listed below are in place and operating effectively:</i></p> <ul style="list-style-type: none"> • <i>Financial guidance in place and regularly reviewed/monitored</i> • <i>Counter Fraud & Corruption & Whistleblowing policies in place (reviewed 2015)</i> • <i>System access control at local level</i> • <i>Monthly financial monitoring & review and exception reporting</i> • <i>NFI & NAFN reviews including payments monitoring</i> • <i>Review of higher value journals</i> • <i>Segregation of duties / 2 person authorisation requirements (to deter fraud / collusion)</i> • <i>Effective Internal Audit function reviewing key controls</i> • <i>Internal controls within Services</i> • <i>Self assessments are carried out to identify potential weaknesses</i> • <i>Procurement Strategy approved by Cabinet June 2013, including roll out of quick quote process for procurement & training for key officers.</i>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p><i>Management is not aware of any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process. The following sources would be used to inform the organisation of any such instances</i></p> <ul style="list-style-type: none"> • <i>S151 Officer is informed of suspected or alleged areas of fraud from the following sources :</i> <ul style="list-style-type: none"> • <i>Whistle Blowing / informants,</i> • <i>Benefits Fraud Investigations</i> • <i>Management – identification of irregularities</i> • <i>Internal Audit – reports / reviews</i> • <i>Any areas of actual fraud will be / are reported to the Audit & Governance Committee as part of the normal quarterly monitoring/reporting process as well as senior management and police (where appropriate);</i> • <i>Requirement of Managers / officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</i>

Fraud risk assessment (continued)

Question	Management response
<p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p>	<p><i>Audit & Governance Members (including relevant Council Officers) receive the following information / communication in order to raise / inform fraud risks and breaches of internal control</i></p> <ul style="list-style-type: none"> • <i>Quarterly Fraud update provided to the Committee including NFI.</i> • <i>Audit & Governance Committees Terms Of Reference state that they will monitor the effectiveness of anti fraud & corruption arrangements. This is achieved / discharged through the Audit & Governance Committee approving the Counter Fraud and Corruption Strategy Policy Statement and Guidance Notes and the Whistleblowing Policy.</i> • <i>Head of Internal Audit Services opinion on the control environment given on a quarterly basis.</i> • <i>Pro-active annual Internal Audit plan based on "Risk Based Audit" to review key activity areas of operation</i>
<p>How does the Council communicate and encourage appropriate business practice and ethical behaviour of its employees and contractors?</p>	<ul style="list-style-type: none"> • <i>Employees are made aware of the communication process (via NetConsent) of all key Council policies, including Financial Guidance, the Counter Fraud and Corruption Policy, Statement & Strategy and Whistleblowing Policy. This is a mandatory process and was last completed in May 2016; compliance is reported and monitored and where appropriate additional training is given.</i> • <i>An employee induction training process is completed which includes specific training for standards/code of conduct.</i> • <i>Financial Guidance is reviewed and approved by Members and is available to all staff / members on intra-net (and hard copy if required);</i> • <i>On-going awareness and dissemination of good practice etc. circulated via PinBoard, officer fraud updates, best practice and Internal Audit & External Audit Reports (including risk assessment / recommendations & management responses and external publications i.e. Audit Commission Circulars);</i> • <i>Development of e-learning modules for Counter Fraud & Corruption and Whistleblowing</i>

Fraud risk assessment (continued)

Question	Management response
<p>How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?</p>	<p><i>This is encouraged via Whistle-blowing Procedures and/or Counter fraud and/or Corruption policy Statements & Strategy (both are available on the intranet).</i></p> <ul style="list-style-type: none"> • <i>The Counter Fraud & Corruption Policy Statement & Strategy was notified to staff using NetConsent policy management system which requires response from staff which will be logged and followed up on the system. Staff are required to read and accept the policy and are required to report any concerns.</i> <p><i>We will roll out an e-learning solution, which covers counter fraud and whistleblowing, once finalised. The e-learning solution will have a series of questions to confirm staff and members understanding and will be linked to the NetConsent Policy Management system to enable us to track acceptance and understanding. This will inform us of additional training requirements needed.</i></p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p><i>We are not aware of any related party relationships or transactions that could give rise to risks of fraud. The following processes are in place to ensure related party relationships are identified:</i></p> <ul style="list-style-type: none"> • <i>Annual declarations of interest are required from Senior Managers and all Members of the Council to inform the related party note in the accounts.</i> • <i>All members have to disclose any interest when making decisions.</i> • <i>Monitoring officer keeps a register of members interests.</i> • <i>Transparency requirements / publications & public interest disclosures.</i>

Fraud risk assessment (continued)

Question	Management response
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016? If so how does the Audit and Governance Committee respond to these</p> <p style="text-align: center;">Page 15</p>	<p><i>No; management would be made aware of any actual or alleged instances of fraud via the following:-</i></p> <ul style="list-style-type: none"> • <i>S151 Officer is informed of (and takes appropriate action in relation to) suspected or alleged areas of fraud from the following sources:</i> <ul style="list-style-type: none"> • <i>Whistleblowing / informants,</i> • <i>Benefits Fraud Investigations including single person discounts, housing benefit, business rates, housing and the Local Council Tax Reduction Scheme</i> • <i>Management identification of irregularities</i> • <i>Internal Audit reports / reviews</i> • <i>Any areas of actual fraud will be / are reported to the Audit & Governance Committee as part of the normal annual report as well senior management and police (where appropriate);</i> • <i>Requirement of Managers / Officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</i>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2016? If so how does the Audit and Governance Committee respond to these</p>	<p><i>No.</i></p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of Laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<ul style="list-style-type: none"> • <i>Quarterly reports are received from the HIAS on systems reviewed. High risk areas are identified.</i> • <i>The Annual Governance Statement assurance gathering process involves assessing against the objectives and managers providing assurance statements.</i> • <i>The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</i> • <i>The External Auditor review and assurance opinion on the financial affairs (management processes) of the Authority.</i> • <i>For Council & Cabinet reports both the Monitoring Officer and Finance Officer are required (subject to options) to sign-off the reports prior to members approving recommendations and to identify that proposed actions comply to legislative requirements.</i> • <i>Periodic update to Officers / Members on new legislative requirements.</i> • <i>Regular update by the External Auditor on potential compliance issues / understanding.</i> • <i>Undertaking NFI Anti Fraud initiatives indicates potential fraudulent violations.</i> • <i>Pro-active Internal Audit Plan focused on provision of assurance reports on status of management control processes.</i> • <i>Regular review and update of Financial Guidance and Counter Fraud Policies.</i>
<p>How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</i></p>

Impact of Laws and regulations (continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016 with an on-going impact on the 2016/17 financial statements?	<i>No.</i>
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<i>Once identified, all claims are considered for their impact on the accounts, with appropriate action taken (e.g. reserve, provision, contingent liability etc.)</i>
Are there any actual or potential litigation or claims that would affect the 2016/17 financial statements?	<i>No.</i>
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<i>No.</i>

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial position and is good practice. A key consideration of going concern is that the Council has cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

Going concern considerations have been set out below and management has provided its response.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<i>The Executive Director Corporate Services (as s151 Officer) is satisfied that the budget and Medium Term Financial strategy (MTFS) proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February 2017.</i>
Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No.
Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	<i>The Executive Director Corporate Services (as s151 Officer) is satisfied that the budget and MTFS proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February 2017.</i>
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	<i>The Financial Plan (MTFS) is agreed at the same time as the Corporate Plan. The financial plan makes clear reference to the Corporate Plan as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Council Plan. Reports in year are consistent with the budget set.</i>

Going Concern Considerations (continued)

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p><i>The financial plan considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review (including welfare benefit reform and localisation of council tax support and business rates) and other changes to local government finance. Policy changes are detailed within the report. Sensitivity analysis for grant and other income and expenditure included.</i></p>
<p>Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubt on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p><i>Yes; PDR process and person specifications include assessment of relevant skills. Capacity issues are raised and discussed on a regular basis including in risk assessments e.g. dealing with benefits claims</i></p>

Related Parties

Issue

Matters in relation to Related Parties

Council's are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

Related Parties (Continued)

Question	Management response
<p>What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?</p>	<p><i>A number of arrangements are in place for identifying the nature of a related party and reported value including:</i></p> <ul style="list-style-type: none"> <i>• Maintenance of a Register of interests for Members and a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</i> <i>• Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and that they state the details of any known related party interests.</i> <i>• Challenge from public</i>
<p>Who have the Council identified as related parties?</p>	<p><i>The Council discloses its related parties under the following headings:</i></p> <ul style="list-style-type: none"> <i>• Government. Central government has controlling influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</i> <i>• Precepts & Levies. These parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</i> <i>• Joint Operations / Ventures. The Council has the potential to influence the other parties through a joint relationship.</i> <i>• Assisted Organisations. The provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</i>

Accounting Estimates

Issue

Matters in relation to accounting estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

the estimate is reasonable; and
 estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations have been set out below and management has provided its response.

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	<i>Yes; see appendix A for detailed breakdown</i>
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	<i>The significant accounting estimates are reported, as part of this report and included within the notes to the accounts, to Audit & Governance Committee. This includes an explanation of the underlying assumptions and likely impact of any variances. External Audit also provide assurance as part of the annual audit / review process.</i>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations.	Valuations are made by the internal valuer (local RICS Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews for significant assets and asset classes.	Chief Accountant notifies the valuer of the programme of rolling valuations or any conditions that warrant an interim re-valuation.	Use the Internal local RICS Member. Use of External valuer (Housing stock). ICT Acquisitions. Heritage Assets valuations. Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance (reliance on expert). ICT: purchases at cost Heritage Assets: Use of valuation (inflated) or cost	No
Estimated remaining useful lives of PPE.	The following asset categories have general asset lives: <ul style="list-style-type: none"> • Housing stock 50 years • Other Buildings 5 to 100 years • Vehicles, plant & equipment 1 to 20 years • Community 100 years • ICT Equipment 3 years • Infrastructure 30 years. 	Chief Accountant discusses with the valuer	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System. For 2016/17, the DCLG have published updated the 'Stock valuation for resource accounting: guidance for valuers 2016'. The new guidance includes an update of the regional adjustment factors used to calculate the social housing value of their property stock to take account of changes in the housing market.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & Amortisation.	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> Assets acquired in year are depreciated on the basis of a charge from acquisition date. Assets that are not fully constructed are not depreciated until they are brought into use. 	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed in year (e.g. garage sites) and at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance - reliance on expert.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non adjusting events - events after the Balance Sheet date	S151 Officer makes the assessment. If the event is indicative of conditions. that arose after the balance sheet date then this is an non-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Heads of Service notify the S151 Officer	This would be considered on individual circumstances. Discussions with Capita/ External auditor	This would be considered on individual circumstances.	N/A
Overhead allocation.	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their external treasury consultants and other finance professionals.	Take advice from finance professionals.	Yes; Capita/PWLB	Take advice from finance professionals.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities.	<p>Provisions are made where an event has taken place that</p> <ul style="list-style-type: none"> gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. <p>Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Council becomes aware of the obligation.	No	<p>Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.</p>	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No	Consistent proportion used across aged debt as per the Code. Business Rates: each case (limited number) assessed to determine estimated recoverable amount	No
Accruals	Finance collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Pension liability	The Council is an admitted body to the Staffordshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No



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Audit and Governance Committee Update for Tamworth Borough Council Progress Report and Update Year ended 31 March 2017

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30 March 2017

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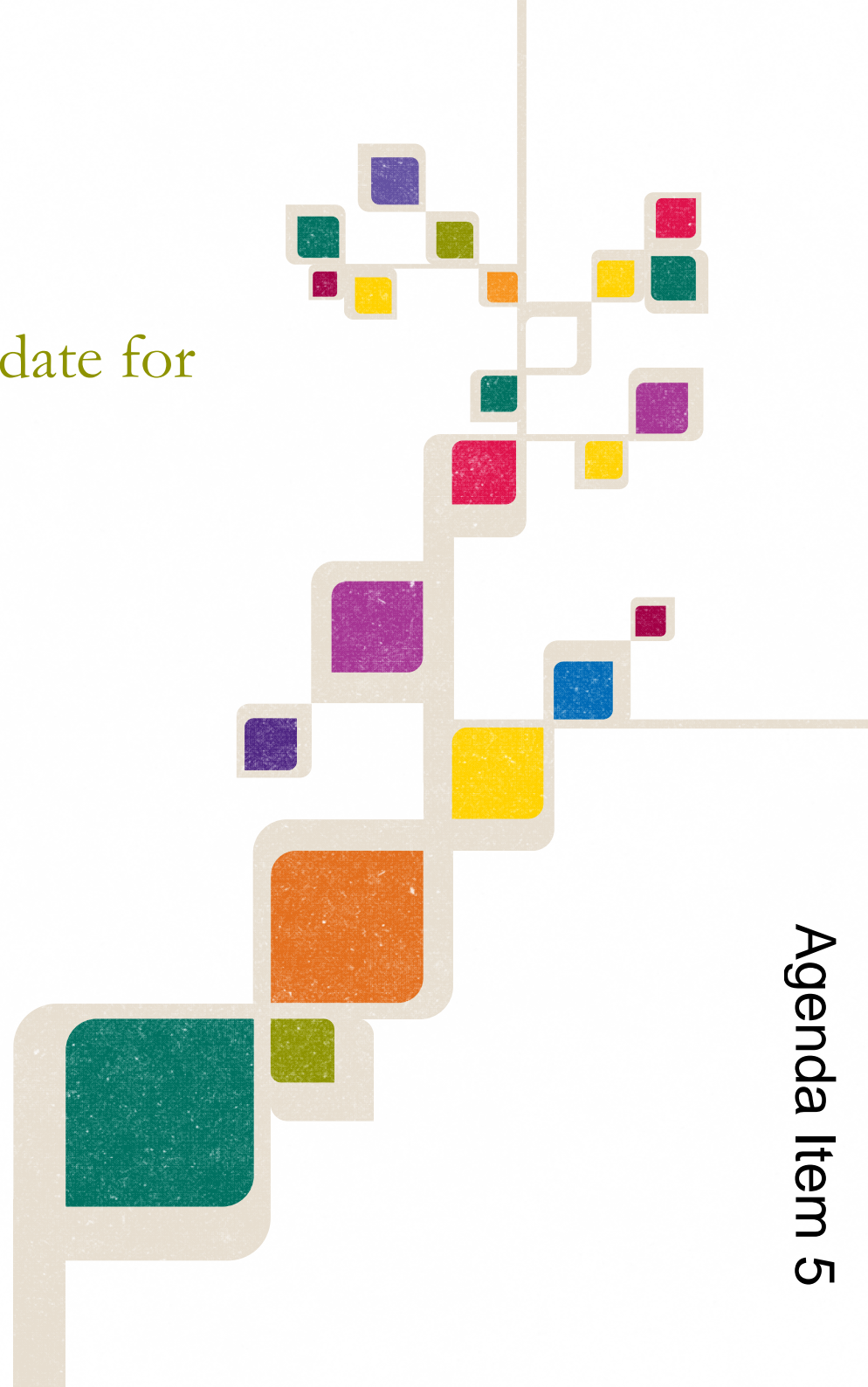
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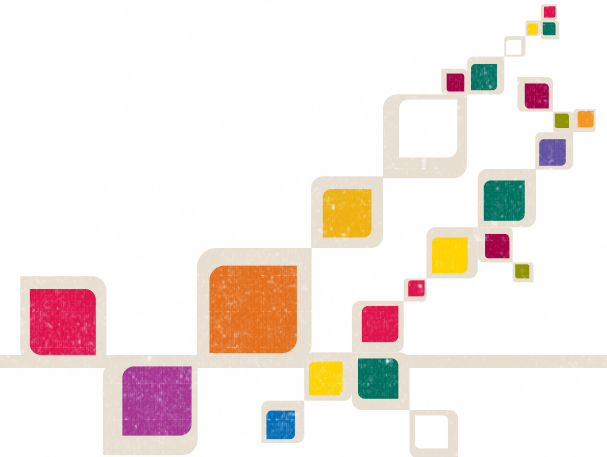
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Introduction

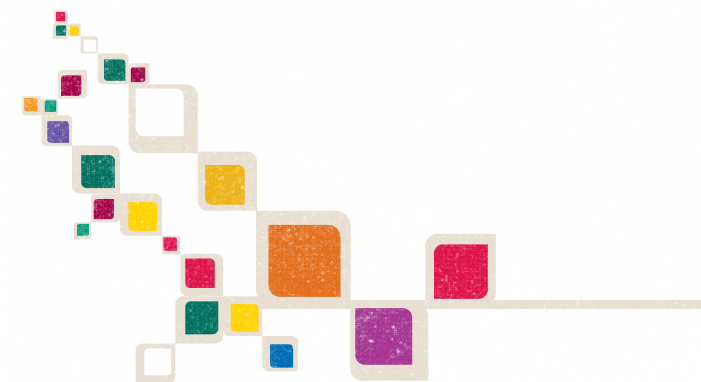
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications, including:

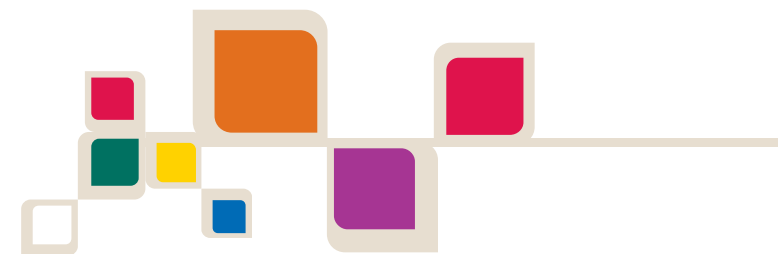
- Impact of Business Rates for Local Authorities (March 2017); <http://www.grantthornton.co.uk/en/news-centre/budget-2017-paul-dossett-impact-of-business-rates-announcements-in-budget-for-local-authorities/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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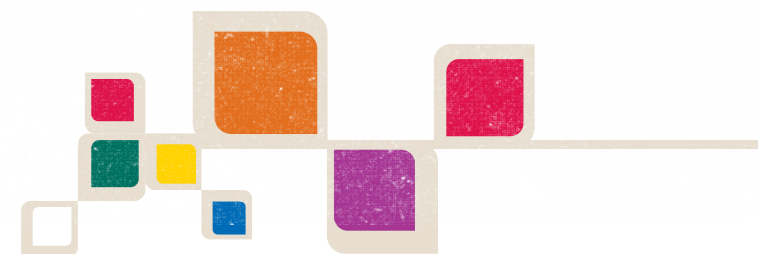


Progress at March 2017



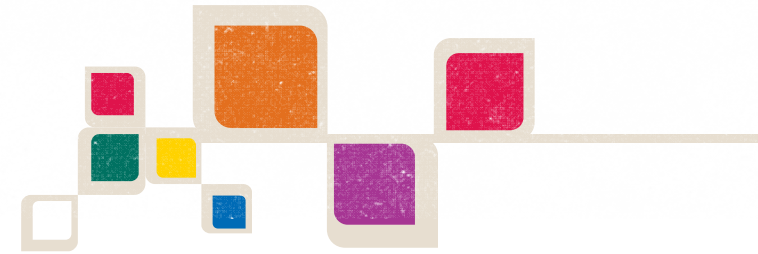
2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	yes	
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	March 2017	yes	The plan is being presented at today's meeting.
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	February 2017	yes`	The results of our interim work is reported within our Audit Plan being presented today. There are no significant issues arising from this work.

Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 	June 2017	Not yet commenced	<p>Our final accounts audit commences on 12 June 2017 with site work ending on 7 July 2017.</p> <p>We are planning to complete our audit in time to present our Audit Findings Report to an Audit and Governance Committee meeting likely to be held on 27 July 2017 (subject to the municipal calendar to be set for 2017/18) as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we shall provide a schedule of the working papers that we expect and will be discussing the implications of emerging accounting matters with finance staff. We will also be attending a series of planning meetings with officers to help a smooth audit process.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January to July 2017	In progress	<p>We have completed our initial risk assessment and have not reported any significant risks. Details are provided in our Audit Plan being presented today. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report to be presented to the Audit and Governance Committee being held at the end of the audit process.</p>

Progress at 9 February 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Other activities We provide a range of workshops, along with network events for members and publications to support the Council.</p>	Ongoing through the year	Ongoing through the year	<p>We provided a local workshop covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements which Officers attended.</p> <p>Officers are meeting with colleagues from other authorities on 29 March 2017 to explore options to further streamline and declutter the accounts.</p>

Sector issues and developments

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Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

National developments

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of Local Government Pension Scheme Funds

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

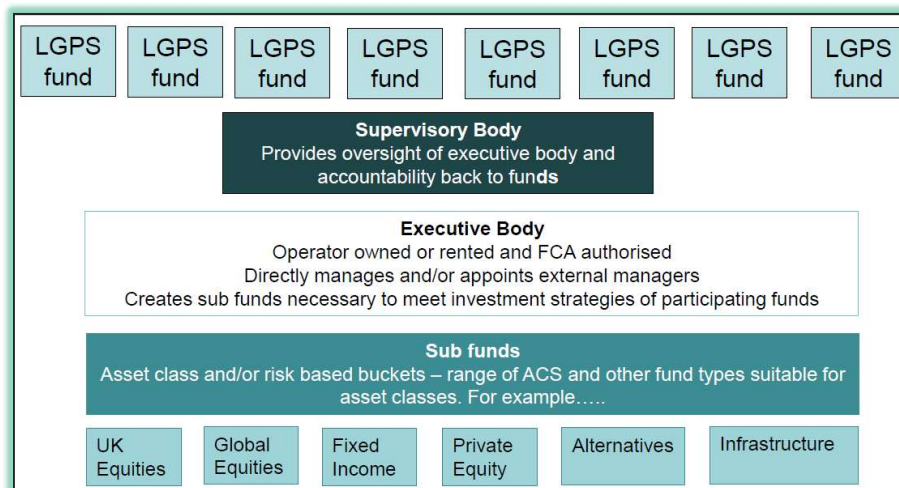
There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

Challenge question:

- Is your Executive Director (Resources) keeping you up to date on developing arrangements in your area?

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consultation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf



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The Audit Plan for Tamworth Borough Council

Year ended 31 March 2017

30 March 2017

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Tamworth Borough Council
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30 March 2017

Dear Members of the Audit and Governance Committee

Audit Plan for Tamworth Borough Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Tamworth Borough Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements

- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

John Gregory

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Impact of Brexit

As details of the plan for Brexit begin to emerge, a successful transition will be dependent on knowing where potential challenges face the Council, and ensuring that sound financial and risk management processes are in place to respond. Your Treasury Management Strategy has taken account of potential risks arising which may impact on interest yields going forward.

Treasury management

The council currently has a healthy cash balance which it is looking at how best to invest to maximise the returns for the authority, while ensuring they are exposed to minimal risk.

Key performance indicators

Measure	Budget	Forecast
Outturn – as at quarter 3 2016/17 an underspend of £828k is forecast.	£8.461m	£7.633m

Key challenges

Medium Term Financial Strategy

Whilst the Council continues to face challenges around its medium term financial resilience, it has responded proactively and effectively to the central funding reductions through the development and agreement of its updated Medium Term Financial Strategy (MTFS), in February 2017.

The plan extends to 2019/20 and is balanced for the period. Reserves will be used to support spending over the period; and are forecast to be £0.5m, the minimum level, at the end of the period.

The plan has taken due consideration of external pressures such as the impact of the revised New Homes Bonus Scheme; and business rates retention and local council tax support schemes.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

We are planning to issue our opinion by 31 July 2017 which will be a year in advance of the mandated earlier deadline.

Our response

- We are able to provide support and challenge to your medium term plans and will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.
- We aim to issue our opinion on the accounts by 31 July 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops. Officers attended the workshop held on 3 March 2017.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,081k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £54k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000.00 (but also needs to take into account the significance of the transaction to the other party).
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000.00

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Tamworth Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Tamworth Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Tamworth Borough Council.</p>
Management override of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

Continued overleaf...

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned:</p> <p>We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</p> <ul style="list-style-type: none"> • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Operating expenses</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 50</p>	<p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>Work completed to date:</p> <p>Documented the processes and controls in place around the accounting for operating expenses and undertaken a walkthrough test to confirm operation of these controls.</p> <p>Tested a sample of operating expenses covering the periods 1 – 9 to ensure they have been accurately accounted for.</p> <p>No issues identified.</p> <p>Further work planned:</p> <p>We will:</p> <ul style="list-style-type: none"> • Undertake cut off testing of purchase orders and goods received notes (both before and after year end) • Review of the year end accruals process. • Review of the year end control account reconciliations • Undertake unrecorded liabilities testing of payments after year end • Test of a sample of operating expenses covering the remainder of the financial year to ensure they have been accurately accounted for, • Test of a sample of creditor balances at 31/3/17.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Employee remuneration</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p>Employee remuneration accruals are understated</p>	<p>Work completed to date:</p> <p>Documented the processes and controls in place around the accounting for employee remuneration and undertaken a walkthrough test to confirm operation of these controls.</p> <p>Tested a sample of payroll expenditure from a sample of employees covering the periods 1 – 9.</p> <p>No issues identified.</p> <p>Work Planned:.</p> <p>We will:</p> <ul style="list-style-type: none"> • Review the year end control account reconciliations. • Review monthly trend analysis of total payroll. • Undertake testing of payroll expenditure from a sample of employees for the remainder of the financial year. • Test a sample of payments made in April and May 2017 to ensure payroll expenditure is recorded in the correct year

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have not identified any significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

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Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 31 July 2017.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

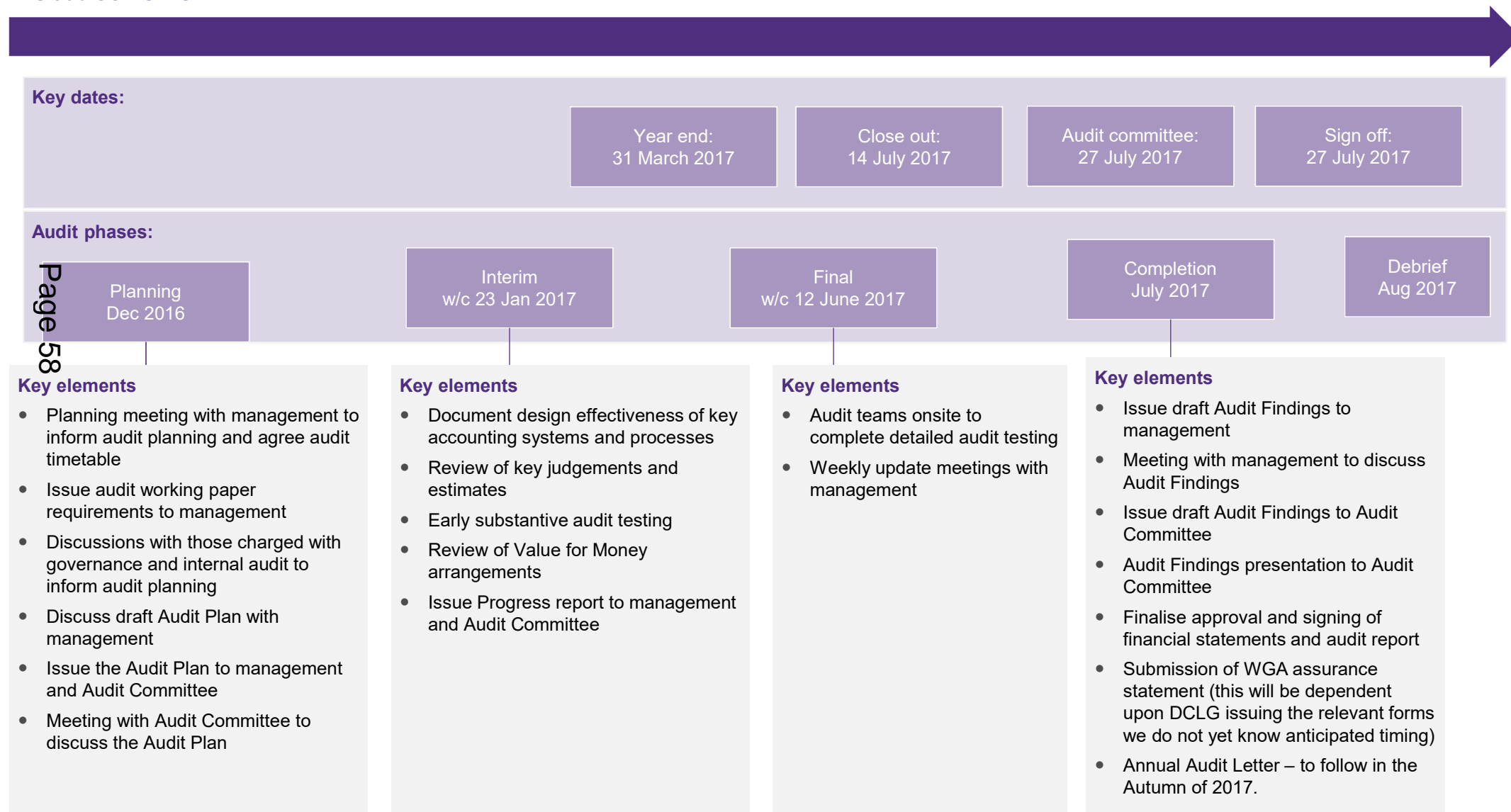
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Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding</p>	Our work has not identified any weaknesses which impact on our audit approach
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p>	Our work has not identified any weaknesses which impact on our audit approach
Early substantive testing	<p>We have undertaken early testing for periods 1 – 9 for the following areas:</p> <ul style="list-style-type: none"> - Sundry income - Operating Expenses - Employee remuneration <p>We have selected as sample of deeds for review at our final visit.</p> <p>We have completed our testing on a sample of housing benefit payments; and also confirmed that benefit and allowance rates have been correctly uploaded into the system for 2016/17.</p>	<p>Our work undertaken to date has not identified any issues.</p> <p>We will test the remainder of the financial year at our final visit.</p> <p>We review and test the deeds selected at our final visit.</p>

The audit cycle

The audit timeline



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Audit Fees

Fees

	£
Council audit	49,838
Grant Certification – indicative fee	11,723
Total audit fees (excluding VAT)	61,561

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services, of which there are none agreed currently, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team – the team attended training held in February and March 2017.
- Regular Audit and Governance Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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AUDIT & GOVERNANCE COMMITTEE

30th March 2017

Report of the Executive Director Corporate Services

REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2017/18 and the TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2016/17

Purpose

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2017/18 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2016/17 approved by Council on 21st February 2017 and 13th December 2016 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 23rd 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 2017/18 is attached at **Annex 1**, together with a copy of the Mid-year Report on the Treasury Management Service 2016/17 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 2017/18 Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2017/18, Council 21 st February 2017
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2016/17 Council 13 th December 2017
	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2010/11, Council 23 rd February 2010.

**TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT
POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND
ANNUAL INVESTMENT STATEMENT 2017/18**

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 2017/18 – 2019/20 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 2011;
- 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. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in December 2012 requires that:
 - Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support;

- There needs to be, at a minimum, a mid year review of Treasury Management Strategy and Performance. The review is intended to highlight any areas of concern that have arisen since the original strategy was approved;
- Each Council must delegate the role of scrutiny of Treasury Management Strategy and policies to a specific named body – the Audit and Governance Committee has been given this role;
- It is good practice for members to be provided with access to relevant training – so that they have the necessary skills and training.

The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

2. With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader counterparty evaluation criteria is used by Capita Asset Services (the Council's Treasury Management consultants). This methodology has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element – but in line with best practice/guidance also includes the following as overlays: -
 - *Credit watches* and *credit outlooks* from credit rating agencies;
 - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
 - Sovereign ratings to select counterparties from only the most creditworthy countries.

The adoption of the above approach helps mitigate risks associated with the investment portfolio.

3. As agreed in past Treasury Management Strategies, it is proposed that the Council (following consultation with our advisors) will not use the approach suggested by CIPFA of using the lowest common denominator rating from all three rating agencies to determine creditworthy counterparties (as Moodys are currently very much more aggressive in giving low ratings than the other two agencies). The use of the Lowest Common Denominator rating would give the Council a very restrictive/unworkable counterparty list which would result in a disproportional (high) level of investment in a few institutions which would as a consequence increase investment risk with the investments being held with a limited number of counterparties which would be counter-productive in not allowing the sharing / spreading of risk over a higher number of counterparties. This would therefore be unworkable and leave the Council with few banks/institutions on its approved lending list and would increase investment risk.

The Capita Asset Services creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue importance to just one agency's ratings.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies.

In addition to the removal of implied support, new methodologies take account of additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or with little change. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody’s) Financial Strength rating withdrawn by the agency.

In keeping with the agencies’ new methodologies, the rating element of the Capita Asset Services methodology now focuses solely on the Short and Long Term ratings of an institution. However, the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies’ new methodologies also meant that sovereign ratings became of lesser importance in the assessment process. Where through the crisis, clients typically used the highest sovereign rating in their criteria, the new regulatory environment has broken the link between sovereign support and domestic financial institutions. While this Authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ‘AA –’. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now.

4. The proposed Counterparty limits for 2017/18 have been increased, reflecting higher average investment balances available at present – but still in line with Capita’s suggested 20% maximum of investment balances deposited with any one institution.
5. 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.);

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

The approach taken in item 2 and 3 above allows officers charged with the Treasury responsibilities to have the most appropriate/market assessment to aid the investment decision making process and provides a broad methodology for identifying High Credit Quality counterparties.

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 8**.

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Background Papers:-	<i>Budget & Medium Term Financial Strategy 2017/18</i>
	<i>Mid-year Treasury Report 2016/17 Council, 13/12/16</i>
	<i>Annual Treasury Report 2015/16 Council, 13/09/16</i>
	<i>Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Statement 2016/17 Council 23/02/2016</i>
	<i>Treasury Management Training slides, 4th February 2015 & 7th October 2015</i>
	<i>CIPFA Code of Practice on Treasury Management in Public Services 2011</i>
	<i>DCLG Guidance on Local Government Investments March 2010</i>
	<i>Local Government Act 2003</i>
	<i>Treasury Management Practices 2017/18 (Operational Detail)</i>

1. Introduction

1.1 The Treasury Management Policy Statement

This Council defines its Treasury Management activities as:

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

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Audit and Governance Committee.

Prudential and Treasury Indicators and Treasury Strategy (Reported February) - 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 report 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.

A description of the Prudential Indicators is attached at **ANNEX 10**.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

a) Capital Issues

- the Capital Plans and the Prudential Indicators (2.1, 2.2);
- the Minimum Revenue Provision (MRP) policy (2.3).

b) Treasury Management Issues

- the current treasury position (2.4);
- treasury indicators which will limit the treasury risk and activities of the Council (3.2);
- prospects for interest rates (3.3);
- the borrowing strategy (3.4);
- policy on borrowing in advance of need (3.5);
- debt rescheduling (3.6);
- the investment strategy (4.1);
- creditworthiness policy (4.2); and
- policy on use of external service providers (4.10).

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 the CLG Investment Guidance.

1.4 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 2014 and February 2015 and most recently in October 2015, but will also be provided as and when required.

The training needs of Treasury Management Officers are regularly reviewed.

1.5 Treasury Management Consultants

The Council uses Capita 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 2017/18 – 2019/20

The Council's Capital Expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans are reflected in 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:

Capital Expenditure	2015/16 Actual £	2016/17 Probable Outturn* £	2017/18 Estimate** £	2018/19 Estimate £	2019/20 Estimate £
Non-HRA	0.631	6.127	2.421	2.991	0.353
HRA	5.512	17.041	16.413	13.194	7.427
Total	6.143	23.168	18.834	16.185	7.780

* Projected at Period 9

** excludes projected slippage from 2016/17

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

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

Capital Financing (GF/HRA) Use of Reserves	2015/16 Actual £m	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Receipts	0.492	2.885	1.487	2.399	0.929
Capital Grants	0.246	3.381	1.804	1.268	0.224
Capital Reserves	2.044	7.097	6.259	6.434	2.200
Revenue Reserves	3.361	6.027	4.312	4.855	4.427
Revenue Contributions	-	0.536	-	-	-
Net financing need for the year	-	3.242	4.972	1.229	-
Total	6.143	23.168	18.834	16.185	7.780

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 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 borrowing need in line with each asset's life.

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:

CFR Projections	2015/16 Actual £m	2016/17 Revised Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement					
CFR – non housing	1.001	1.943	1.885	3.008	2.903
CFR - housing	68.041	70.283	75.255	75.255	75.255
Total CFR	69.042	72.226	77.140	78.263	78.158
Movement in CFR	(0.241)	3.184	4.914	1.123	(0.105)

Movement in CFR represented by					
Net financing need for the year (above)	-	3.242	4.972	1.229	-
Less MRP/VRP and other financing movements	(0.241)	(0.058)	(0.058)	(0.106)	(0.105)
Movement in CFR	(0.241)	3.184	4.914	1.123	(0.105)

* CFR 2014/15 £69.282m

2.3 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, 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).

2.4 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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Fund Balances/Reserves	30.110	32.605	26.842	19.395	18.504
Capital Receipts	5.231	11.493	18.895	25.969	25.994
Provisions*	9.023	8.939	8.939	8.939	8.939
Other	0.048	-	-	-	-
Total Core Funds	44.412	53.037	54.676	54.303	53.437
Working Capital**	6.470	7.083	15.547	15.342	12.954
(Under)/Over Borrowing	(3.98)	(7.17)	(12.08)	(13.20)	(13.10)
Expected Investments	46.900	52.954	58.143	56.442	53.294

* Including provision for bad debts

** Working capital balances shown are estimated year end; these may be higher mid year.

2.5 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:

2.6 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.

Ratio of financing costs to net revenue stream	2015/16 Actual %	2016/17 Revised Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Non-HRA	0.04	(2.02)	(0.95)	(1.87)	(2.77)
HRA	25.04	39.87	39.23	40.34	40.86

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

2.7 Incremental impact of capital investment decisions on Council Tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

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

£:p	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D	(0.27)	0.76	(2.36)	3.46	(2.04)

2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

£:p	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels	0.02	-	(0.35)	(0.21)	(0.30)

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Housing Revenue Account Debt Ratios

HRA Debt to Revenue Ratio	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA Debt* £m	68.041	70.283	75.255	75.255	75.255
HRA Revenues £m	18.827	18.031	17.979	17.670	17.367
Ratio of Debt to Revenues %	361	390	419	426	433

HRA Debt per Dwelling	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA Debt* £m	68.041	70.283	75.255	75.255	75.255
Number of HRA Dwellings	4,397	4,380	4,345	4,310	4,275
Debt per Dwelling £	15,474	16,048	17,322	17,463	17,606

* The HRA's notional debt borrowing requirement

As the level of debt increases compared to revenue income, risk increases.

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. 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 31st March 2016, 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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
External Debt					
Debt at 1st April	65.060	65.060	65.060	65.060	65.060
Expected change in Debt	-	-	-	-	-
Actual gross debt at 31st March	65.060	65.060	65.060	65.060	65.060
The Capital Financing Requirement	69.042	72.226	77.140	78.263	78.158
Under / (over) borrowing	3.982	7.166	12.080	13.203	13.097

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. A key indicator is that the Council needs to ensure that its total borrowing, 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 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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 – compliance with the Prudential Indicator is highlighted in the table below.

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 borrowing.

Operational Boundary	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	65.060	65.060	65.060	65.060
Other long term liabilities	-	-	-	-
Total	65.060	65.060	65.060	65.060

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

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

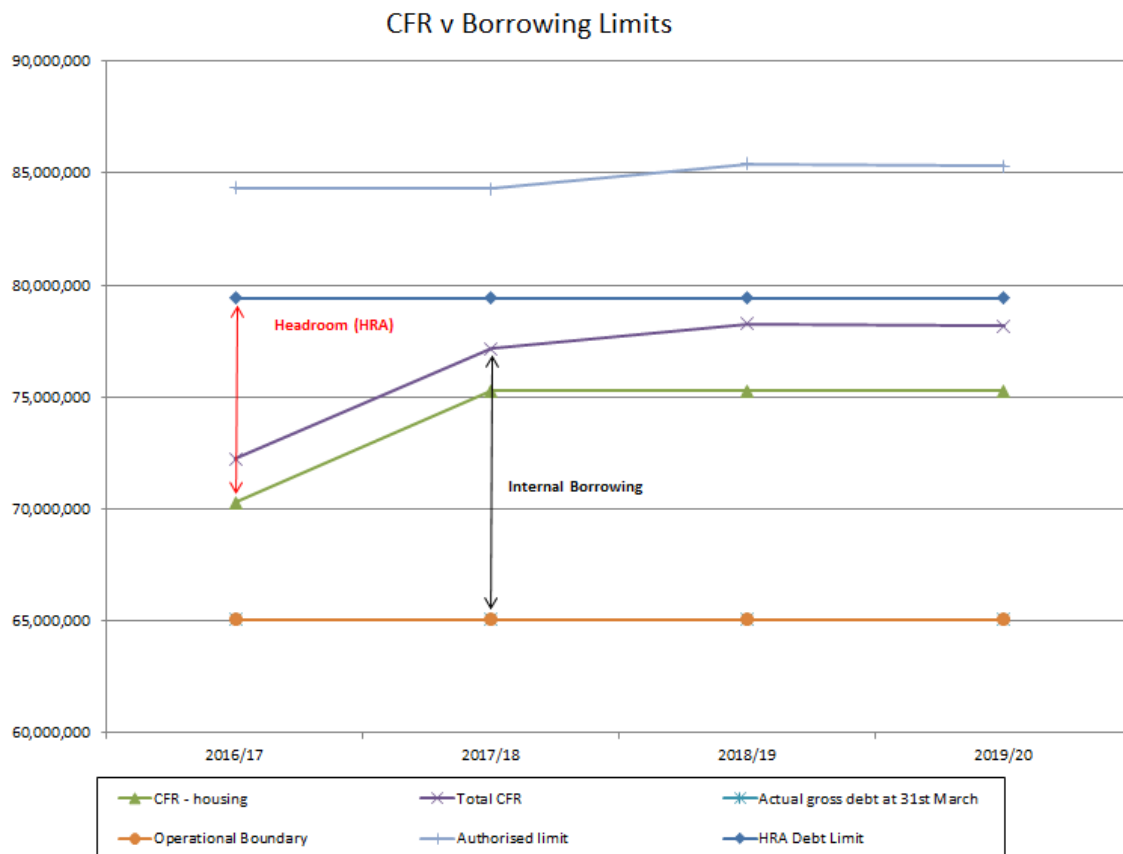
2. The Council is asked to approve the following Authorised Limit:

Authorised limit	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	84.350	84.292	85.415	85.310
Total	84.350	84.292	85.415	85.310

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

HRA Debt Limit	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
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 is at **ANNEX 2**.

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December, and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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 longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause

their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

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

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

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

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

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

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

Investment and borrowing rates

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

3.4 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 2017/18 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- * *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- * *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. 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.

Treasury Management - Limits on Activity

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:

Interest Rate Exposure	2017/18	2018/19	2019/20
	£m	£m	£m
	Upper	Upper	Upper
Limits on Fixed Interest Rates based on net debt	34.904	31.526	31.526
Limits on Variable Interest Rates based on net debt	6.506	6.506	6.506
Limits on Fixed Interest Rates: Debt only	65.060	65.060	65.060
Investments only	50.260	55.890	55.890
Limits on Variable Interest Rates: Debt only	6.506	6.506	6.506
Investments only	20.104	22.356	22.356

Maturity structure of Fixed Interest Rate borrowing 2017/18		
Timeline	Lower	Upper
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%

Maturity structure of Variable Interest Rate borrowing 2017/18		
Timeline	Lower	Upper
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%

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;
- * 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 likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). The Council will consider using this new source of borrowing if 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 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the Government 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 this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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 3** 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 Capita 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 Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

* *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 3**.*

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

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, 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 Capita Asset Services creditworthiness service:

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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 4**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Capita Asset Services also recommends that no more than 20% of the Council's investment portfolio should be placed with an individual counterparty, in order to spread risk. The approach at the Council is to set monetary limits of up to **£10m** with individual institutions, which equates approximately to Capita's recommendation (based on average investment levels of approximately £50m).

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 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

Year	%
2016/17	0.25
2017/18	0.25
2018/19	0.25
2019/20	0.50
2020/21	0.75
2021/22	1.00
2022/23	1.50
2023/24	1.75
Later Years	2.75

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

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

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

Maximum principal sums invested > 364 days			
Treasury Indicator	2017/18 £m	2018/19 £m	2019/20 £m
Principal sums invested > 364 days	6.000	12.000	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 Icelandic Bank Investments

Glitnir – On 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £777k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement, which is still unknown.

Heritable – As at the end December 2016, the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negotiations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds may be made over the next few months.

Kaupthing Singer & Friedlander – As at the end December 2016, the Council had received £2.659m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m, with the majority of repayments estimated to be received by March 2017.

4.6 Investment Risk Benchmarking

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

4.7 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.

4.8 Scheme of delegation

Please see **ANNEX 5**.

4.9 Role of the Section 151 Officer

Please see **ANNEX 6**.

4.10 Policy on use of external service providers

Please see **ANNEX 7**. TMP 11

10. ANNEX

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Interest Rate Forecasts 2016 – 2020

PWLB rates and forecast shown below have taken into account the 20 basis point 'Certainty Rate' reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Economic Background

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3rd November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15th December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer

expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November, it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increased in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2%, though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PwLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year

gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016, but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December (for November), was distinctly weak, with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came as expected in December 2016 to a range of 0.5% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled

upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little

fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of

sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Specified and Non-Specified Investments:**Specified Investments:**

These investments are **sterling** denominated investments of **not more than one-year maturity**, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.

These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilts with less than one year to maturity). To facilitate use of such instruments a Custodian account was opened during 2012/13 with King & Shaxson Ltd (a primary participant authorised to bid at Treasury bill tenders on behalf of investors regulated by the Financial Services Authority (FSA) and subject to its rules and guidance in their activities);
- Supranational bonds of less than one year's duration;
- A Local Authority, Parish Council or Community Council;
- Pooled investment vehicles such as Money Market Funds (MMF's) that have been awarded a high credit rating of AAA by Standard and Poor's, Moody's or Fitch rating agencies.;
- A body that is considered of a high credit quality (such as a bank or building society) and complies with the Capita Asset Services Credit Worthiness criteria; The Council uses a Custodian account with King & Shaxson Ltd and Capita Asset Services to place funds via a pooled investment arrangement with such bodies;

SPECIFIED INVESTMENTS	Minimum 'High' Credit Criteria	Limits
UK Government :- <ul style="list-style-type: none"> • Debt Management Agency Deposit Facility (DMADF) • Gilts • Treasury Bills 	UK Sovereign rating	£10m
Bonds Issued by Multilateral Development Banks	AAA or Equivalent	£10m
Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's):- <ul style="list-style-type: none"> • Government Liquidity Funds • Money Market Funds • Enhanced Money Market Funds (credit score of 1.25) • Enhanced Money Market Funds (credit score of 1.5) • Bond Funds • Gilt Funds 	AAA	£10m
Term deposits :- Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£10m
Term deposits and Callable deposits :- Banks and Building Societies	In accordance with Capita's Creditworthiness Service up to 'Orange'	£10m individual institutions £14m Group limit
UK Part Nationalised Banks	In accordance with Capita's Creditworthiness Service 'Blue'	£10m individual institutions £14m Group limit
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Capita's Creditworthiness Service up to 'Orange' or 'Blue'	£10m

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.

Non-Specified Investments:

Non-specified investments are any other type of investment (i.e. not defined as Specified above) . The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Ref	Non Specified Investment Categories	Credit Rating	Comment
1	<p>Supranational Bonds greater than 1 year to maturity</p> <ul style="list-style-type: none"> • Multilateral development bank bonds – These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). • A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. 	AA-	Would not use in-house due to size of investment portfolio limiting benefit to the Council.
2	UK Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (1) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	<p>AAA Sovereign Rated (1 Rating Agency)</p> <p>AA- Sovereign Rating (2 Rating Agencies)</p>	Custodian Account held with King & Shaxson to trade on our behalf
3	Certificates of Deposit with credit rated deposit takers (Banks and Building Societies)	Capita Asset Services Minimum Credit Worthiness rating	Custodian Account held with King & Shaxson to trade on our behalf
4	Term deposit with a body which has been nationalised/part nationalised by high credit rated (sovereign rating AAA or AA-) countries and provided with a Government issued guarantee for wholesale deposits within specific timeframes.	<p>AAA or AA- Sovereign Rated</p> <p>Capita Asset Services Credit Worthiness rating Blue</p>	Under the current criteria this applies in the UK to Royal Bank of Scotland Group
5	Government guarantee on ALL deposits by high credit rated (AAA sovereign rating non UK) countries.	AAA Sovereign Rated	Not in Use, currently restricting investments to UK only
6	The Council's Own Banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.	Out of range	Balances reviewed and minimised on daily basis
7	Any Bank or Building Society that has at minimum a long term credit rating of A-, a minimum short term credit rating of F1, or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	In accordance with Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services Credit Worthiness rating
8	Callable Deposits with a Bank or Building Society that has at minimum a long term credit rating of A-, a minimum short term credit rating of F1, or equivalent.	In accordance with Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services Credit Worthiness rating
9	Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	N/A	Unlikely to use due to size of portfolio and high risk associated. Also requires additional approval as deemed as capital expenditure.

Ref	Non Specified Investment Categories	Credit Rating	Comment
10	Property Funds – The use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources. This authority will seek guidance on the status of any fund it may consider using.	N/A	Limits will be set based on levels of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type is considered.
11	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. This authority will seek guidance on the status of any fund it may consider using.	N/A	Limits will be set based on levels of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type is considered.

Within categories 3, 4, and 5, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. All investments will be made in sterling to eliminate exchange rate risk.

The criteria are detailed in the table below and will be used in conjunction with Capita Asset Service's Creditworthiness service.

Counterparty Type (TBC's minimum credit ratings for approved lending list)	Minimum Credit Criteria	Limits*	
Bank or Building Society (a minimum Long Term Credit Rating of AAA, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	5 yrs	£10m
Bank or Building Society (a minimum Long Term Credit Rating of AA-, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	4 yrs	£10m
Bank (a minimum Long Term Credit Rating of A-, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	3 yrs	£10m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA or AA+) countries	Capita 'Blue' (UK)	Specified in Guarantee	£10m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries	Capita 'Blue'	Specified in Guarantee	£10m
The Council's own Banker - if it fails to meet basic criteria	n/a	Overnight	£2m
Building Society (a minimum Long Term Credit Rating of A-, a minimum short term credit rating of F1 (or equivalent /if applicable) AND assets > £4bn)	Capita 'Yellow'	3 yrs	£10m
Building Society (a Long Term Credit Rating of A- , a minimum short term credit rating of F1 (or equivalent/if applicable) AND assets < £4bn but > £1bn)	Capita 'Purple'	2 yrs	£10m
Group Limits - Maximum investments in Institutions within the same financial group	As above for individual investment	As above for individual investment	£14m
Territory Limits - Maximum investments in Institutions within the same Country (Approx 15% of investment programme) Non- UK	As above for individual investment	As above for individual investment	£5m
Territory Limits - Maximum investments in Institutions within the same Continent (Approx 30% of investment programme) Non UK	As above for individual investment	As above for individual investment	£10m

* Under current Capita Asset Services credit worthiness criteria, only institutions with a rating of 'Purple' or 'Yellow' are suggested as appropriate counterparties for investments over 1 year, with limit ranges of 2 years and 5 years respectively.

Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from all three rating agencies) and also have banks operating in sterling markets which have credit ratings of green or above in the Capita 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
- Qatar
- U.K*.

AA-

- Belgium

(Per Capita Asset Services 17/11/16)

* At its meeting of the 15th 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 2017/18.

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 (quarterly/half yearly) and making recommendations to the Cabinet.

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.

TREASURY MANAGEMENT PRACTICES

The Treasury Management Practices document (TMP's) 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 TMP's folder.

The items below are summaries of the individual TMP's 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 are 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.

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

1.5 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 refinancing, 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 are 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.

1.6 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.

1.7 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.

1.8 Market 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 its self from the effects of such fluctuations.

TMP2 : BEST VALUE AND 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 are 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 TMP's.

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.

ICELANDIC BANKING SITUATION AS AT 31/12/2016					
	Deposit with;	Ref Number	Date Invested	Amount	%
1	GLITNIR	1696	10/10/2007	1,000,000	
	GLITNIR	1715	31/08/2007	1,000,000	
	GLITNIR	1754	14/12/2007	1,000,000	
	Total Principal			3,000,000	
	Estimated of Contractual or Interest due to point of administration (subject to currency exchange rate fluctuations)			331,000	
	Total of Claim			3,331,000	
	Repayments Received to date			(2,554,432) *	76.69
	Outstanding at 31/12/2016			776,568 **	
	Estimated Remaining			776,568	
<p>On the 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £777k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement. which is still unknown.</p>					
2	Heritable Bank	1802	12/09/2008	500,000	
	Heritable Bank	1803	15/09/2008	1,000,000	
	Total Principal			1,500,000	
	Interest due at point of administration 07/10/2008			5,127	
	Total of Claim			1,505,127	
	Repayments Received to date			(1,475,024)	98.00
	Outstanding at 31/12/2016			30,103	
	Estimated Remaining			-	
<p>As at the end of December the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negotiations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds may be made over the next few months.</p>					
3	Singer & Friedlander	1716	31/08/2007	1,000,000	
	Singer & Friedlander	1740	31/10/2007	1,000,000	
	Singer & Friedlander	1746	14/01/2008	1,000,000	
	Total Principal			3,000,000	
	Interest due at point of administration 08/10/2008			175,256	
	Total of Claim			3,175,256	
	Repayments Received to date			(2,675,153)	84.25
	Outstanding at 31/12/2016			500,103	
	Estimated Remaining			31,753	
<p>As at the end of December the Council had received £2.659m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m, with the majority of repayments estimated to be received by March 2017.</p>					
Summary					
	Total Principal			7,500,000	
	Interest			511,383	
	Total of Claim			8,011,383	
	Repayments Received to date			(6,704,609)	83.69
	Outstanding at 31/12/2016			1,306,774	
	Estimated Remaining			808,321	
1	Registered Bank in Iceland - In Administration under Icelandic Law				
2 &	Registered Bank in UK - In Administration in UK by Ernst & Young				
3	Under English Law				
	Total Estimated Recovery (including Outstanding)			7,512,930	
	Total Estimated % Remaining			93.78%	

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 5 years. Details of individual schemes are contained within the capital estimate pages.
2. **Estimates of Capital Financing Summary** – Although the Prudential Code does not require this indicator, it is included so that the capital financing sources can be clearly identified.
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. **Incremental Impact on Band D Council Tax** – This represents debt charges i.e. the interest and Minimum Revenue Provision (Principal repayments) of all General Fund borrowing, gross of government support in the form of RSG. This indicator is calculated by calculating the debt charge based on the proposed capital programme and dividing the result by the tax base for Council Tax.
5. **Incremental Impact on average weekly housing rent** – For HRA capital programme, the proposed HRA borrowing is unsupported with the balance of the capital expenditure funded from the Major Repairs Reserve, revenue contributions and capital receipts and therefore will not impact the indicator for HRA.
6. **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 reserve part of capital receipts accumulated until 31st March 2004.
7. **Actual Net Borrowing** – This is a key indicator and Section 3 of the Local Government Act 2003 requires the Council to ensure that over the medium term, the net borrowing (actual long term borrowing less temporary investments) does not exceed the sum of Capital Financing Requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.
8. **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 2017- 18 is the statutory limit determined under section 3(1) of the Local Government Act 2003.

9. 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.

10. 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 364 days** – The approved treasury management strategy includes a limit of £6m for investments maturing beyond 364 days.

COUNCIL

13TH DECEMBER 2016

REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS AND ASSETS

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT
STRATEGY MID-YEAR REVIEW REPORT 2016/17**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 accept the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2016/17.

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 2016/17;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

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 0.59% (0.69% for the same period in 2015/16) compared to the 3 Month LIBID benchmark rate of 0.38% (0.46% for the same period in 2015/16). This excludes all investments currently classified as 'At Risk' in the former Icelandic Banking institutions.

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 has been delivered for Members in February 2015 and October 2015.

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 2016/17 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 13th 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 2016/17 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

1. Economic Update

1.1 UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that

although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23rd.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

1.2 US

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

1.3 Eurozone

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

1.4 Japan and China

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

1.5 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 23rd February 2016.

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	2016/17 Original Programme	Budget B'fwd from 2015/16	Virements to Programme in Year	Total 2016/17 Budget	Actual Spend @ Period 6	2016/17 Revised Estimate*
	£m	£m	£m	£m	£m	£m
General Fund	4.535	2.686	(1.069)	6.152	0.991	6.152
HRA	10.217	6.844	-	17.061	2.983	17.041
Total	14.752	9.530	(1.069)	23.213	3.974	23.193

* Includes potential expenditure slippage into 2017/18

3.2 Changes to the Financing of the Capital Programme

The table below 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.

Capital Expenditure	2016/17 Estimate £m	2016/17 Revised Estimate * £m
Unsupported	2.242	3.242
Supported	12.510	19.951
Total spend	14.752	23.193
Financed by:		
Grants - Disabled Facilities	0.224	0.224
Coalfields Grant	-	0.250
Section 106's	0.284	0.375
GF Receipts	0.461	0.806
GF Reserve	-	0.209
Sale of Council House Receipts	0.090	0.438
HRA Receipts	0.868	0.868
HLF Assembly Rooms Lottery	0.579	0.759
Grants - SCC (Assembly Rooms / Gateways)	0.040	-
Grants - Assembly Rooms (SLGF)	1.962	1.530
Public Contributions (Assembly Rooms)	0.025	0.025
HLF/SCC/Donation - Castle Mercian Trail	0.480	0.536
Grants - Gateways (SLGF)	0.390	-
MRR	4.407	5.651
HRA 1-4-1 Replacements Receipts	0.780	0.898
HRA Reserve	0.679	3.311
HRA Regeneration Fund	1.241	3.578
HCA Grant	-	0.493
Total Financing	12.510	19.951
Borrowing need	2.242	3.242

* includes potential expenditure slippage into 2017/18

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

The 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

Prudential Indicator	2015/16 Outturn £m	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
CFR – Non Housing	1.001	0.665	0.943 *
CFR – Housing	68.041	70.283	70.283
Total CFR	69.042	70.948	71.226
Net movement in CFR	(0.241)	2.208	2.184
Operational Boundary			
Expected Borrowing	73.268	73.268	73.268
Other long term liabilities	-	-	-
Total debt 31 March	73.268	73.268	73.268

* The actual level of additional Voluntary Repayment of principal in relation to the capitalisation value of outstanding Icelandic debt was lower than previously forecast within the 2016/17 original estimate.

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 2016/17 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.

Activity	2015/16 Outturn £m	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
Gross borrowing	65.060	67.302	65.060
Plus other long term liabilities	-	-	-
Less investments	39.715	35.194	51.200
Net borrowing	25.345	32.108	13.860
CFR (year end position)	69.042	70.948	71.226

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.

Authorised Limit for External Debt	2016/17 Original Indicator	Current Position	2016/17 Revised Indicator
Borrowing	89.112	89.112	89.112
Other Long Term Liabilities	3.000	3.000	3.000
Total	92.112	92.112	92.112

4. Investment Portfolio 2016/17

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. 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 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £55.7m of investments as at 30th September 2016 (£39.715m at 31st March 2016) and the investment portfolio yield for the first six months of the year is 0.59% against a benchmark of the 3 months LIBID of 0.38%. A full list of investments held as at 30th September 2016 is detailed in **APPENDIX 1**.

The Executive Director Corporate Services confirms that on one occasion during the first six months of 2016/17 that the approved limits within the Annual Investment Strategy were breached by £29k. This occurred when a payment was received late in the day, resulting in £1.029m being held within the Lloyds Bank account overnight, which exceeded the approved limit of £1m.

The Council's budgeted investment return for 2016/17 is £362k, and performance for the year is projected to be £83k below budget, due to the recent reduction in 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 2015 to September 2016 was 0.65% compared to the group average of 0.95% (information from CIPFA Benchmarking Draft Report Q2 2016/17) excluding the impaired investments in Icelandic banks. 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.

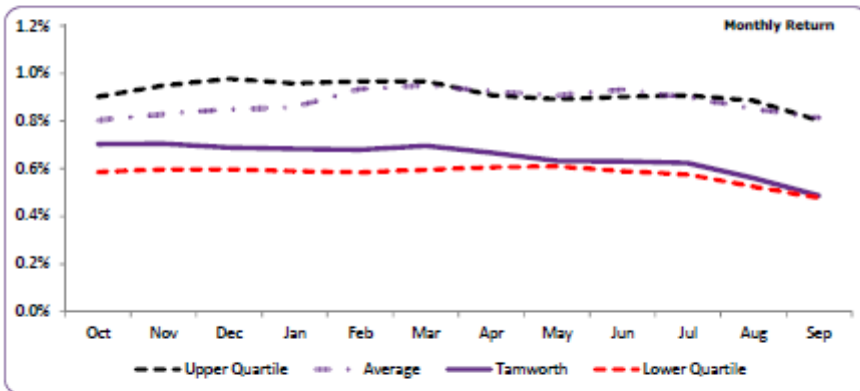
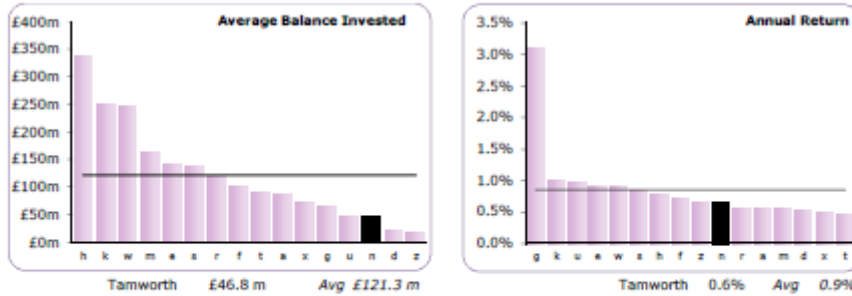
This can be analysed further into the following categories:

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)	-	1.4	-	0.2
Fixed Investments (between 31 and 90 days)	-	6.2	-	0.2
Fixed Investments (between 91 and 364 days)	25.2	42.3	0.7	0.8
Fixed Investments (between 1 year and 5 years)	-	26.6	-	1.8
Fixed Investments (Over 5 years)	-	0.3	-	2.7
Callable and Structured Deposits	-	6.3	-	2.6
Notice Accounts	6.5	31.2	0.8	0.5
Money Market Funds (Constant Net Asset Value)	13.1	25.9	0.4	0.5
Money Market Funds (Variable Net Asset Value)	-	21.0	-	0.7
DMADF	-	1.7	-	0.1
CD's, Gilts and Bonds	2.0	25.4	0.8	0.8
Average of all investments (Managed in House)	46.8	121.3	0.6	0.9

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 Capita 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 (excluding impaired investments)



Monthly Return (Oct 15 - Sept 16)	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Av Bal £'m	44.51	43.97	47.94	49.33	48.35	44.14	44.66	43.90	45.06	45.90	48.35	55.09	46.77
Earned £'k	26.6	25.5	28.0	28.6	26.1	26.1	24.5	23.6	23.4	24.3	23.0	22.0	301.7
Upper Quartile	0.90%	0.95%	0.98%	0.96%	0.97%	0.97%	0.91%	0.89%	0.90%	0.91%	0.89%	0.80%	0.90%
Average	0.80%	0.83%	0.85%	0.86%	0.93%	0.95%	0.92%	0.91%	0.93%	0.90%	0.85%	0.81%	0.85%
% Return	0.70%	0.70%	0.69%	0.68%	0.68%	0.70%	0.67%	0.63%	0.63%	0.62%	0.56%	0.49%	0.65%
Lower Quartile	0.59%	0.60%	0.60%	0.59%	0.58%	0.59%	0.61%	0.61%	0.59%	0.57%	0.52%	0.48%	0.56%
% Diff from Av	-0.10%	-0.13%	-0.16%	-0.18%	-0.25%	-0.25%	-0.26%	-0.28%	-0.30%	-0.28%	-0.29%	-0.33%	

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as amended at Council on the 23rd February 2016 will meet the requirement of the Treasury Management function.

5. Borrowing

The Council's estimated revised capital financing requirement (CFR) for 2016/17 is £71.226m. 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 £65.060m and has utilised £6.166m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

In the first half of the year the Council had no PWLB debt maturing, with £2m due to mature in February 2017. In addition, the capital programme requires additional unsupported borrowing of £3.2m.

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.

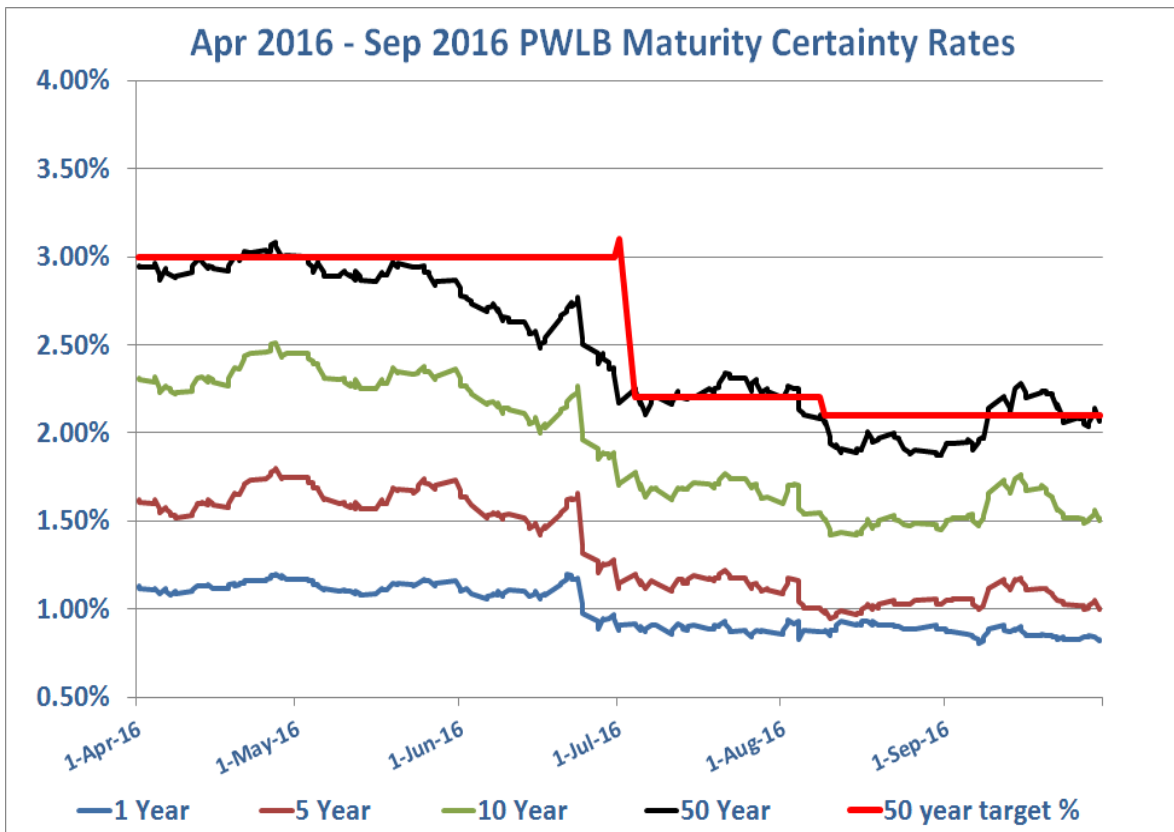
Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- * *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 2016/17.

The table and graph below show the movement in PWLB (Certainty Rates) for the first six months of the year to 30.9.16:

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



6. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2016/17.

7. Icelandic Banks Update

Appendix 2 contains details of the situation with Icelandic investments as at 30th September 2016.

Expectations of future receipts and timeframes based on current information regarding each bank are given below;

- Glitnir

On 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £777k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement, which is still unknown.

- Heritable

As at the end of September the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. The administrators are currently retaining a reserve to cover final Administrator's costs until closure of the administration of an outstanding legal case. This may allow for a further small distribution once resolved.

- Kaupthing, Singer and Friedlander

As at the end of September the Council had received £2.659m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m, with the majority of repayments estimated to be received during 2016/17 and 2017/18.

REPORT AUTHOR

Please contact Stefan Garner, Director of Finance 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 2015/16 – Council 15th September 2016</i>
	<i>Treasury Management Strategy & Prudential Indicators Report 2016/17 - Council 23rd February 2016</i>
	<i>Budget & Medium Term Financial Strategy 2016/17 - Council 23rd February 2016</i>
	<i>Financial Healthcheck Period 6, September 2016</i>
	<i>CIPFA Treasury Management Benchmarking Club Report Quarter 2, September 2016</i>

APPENDICES

APPENDIX 1 Current Investment List

APPENDIX 2 Icelandic Banking Situation

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APPENDIX 1

Treasury Management Update – Period 6 - 2016/17

Investments held as at 30th September 2016:

Borrower	Deposit £m	Rate %	From	To	Notice
Coventry BS	1.00	0.60	05/04/2016	05/10/2016	-
Sumitomo Mitsui Banking Corporation	2.00	0.70	19/04/2016	18/10/2016	-
Lloyds Bank	1.00	0.80	29/04/2016	28/10/2016	-
Nationwide	1.00	0.71	09/05/2016	09/11/2016	-
Nationwide	1.00	0.71	31/05/2016	30/11/2016	-
Lloyds Bank	1.00	0.80	01/06/2016	01/12/2016	-
Bank of Scotland	2.00	0.80	30/06/2016	30/12/2016	-
Lloyds Bank	2.00	0.65	01/07/2016	03/10/2016	-
Coventry BS	1.00	0.50	07/07/2016	09/01/2017	-
Nationwide	2.00	0.42	08/07/2016	10/10/2016	-
Nationwide	1.00	0.49	15/07/2016	13/01/2017	-
Coventry BS	1.00	0.42	20/07/2016	20/01/2017	-
Lloyds Bank	1.00	0.65	09/08/2016	09/02/2017	-
Bank of Scotland	2.00	0.65	10/08/2016	10/02/2017	-
Barclays Bank	1.00	0.40	10/08/2016	10/02/2017	-
Barclays Bank	3.00	0.42	01/09/2016	01/03/2017	-
Barclays Bank	1.00	0.41	05/09/2016	06/03/2017	-
Barclays Bank	1.00	0.41	07/09/2016	07/03/2017	-
Barclays Bank	1.00	0.42	12/09/2016	13/03/2017	-
Coventry BS	4.00	0.37	12/09/2016	13/03/2017	-
Leeds	1.00	0.32	12/09/2016	13/03/2017	-
Nationwide	1.00	0.42	15/09/2016	15/03/2017	-
Nationwide	1.00	0.42	30/09/2016	31/03/2017	-
Santander UK plc	1.00	0.15	-	-	On call
Santander UK plc	6.00	0.65	-	-	On call
MMF - Ignis	8.00	0.32	-	-	On call
MMF - PSDF	6.32	0.29	-	-	On call
MMF - Deutsche	1.38	0.30	-	-	On call
TOTAL	55.70	0.48 (avg)			

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

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ICELANDIC BANKING SITUATION AS AT 30/09/2016

	Deposit with;	Ref Number	Date Invested	Amount	%
1	GLITNIR	1696	10/10/07	1,000,000	
	GLITNIR	1715	31/08/07	1,000,000	
	GLITNIR	1754	14/12/07	1,000,000	
	Total Principal			3,000,000	
	Estimated of Contractual or Interest due to point of administration (subject to currency exchange rate fluctuations)			331,000	
	Total of Claim			3,331,000	
	Repayments Received to date			(2,554,432) *	76.69
	Outstanding at 30/09/2016			776,568 **	
	Estimated Remaining			776,568	

On the 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £777k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement, which is still unknown.

2	Heritable Bank	1802	12/09/08	500,000	
	Heritable Bank	1803	15/09/08	1,000,000	
	Total Principal			1,500,000	
	Interest due at point of administration 07/10/2008			5,127	
	Total of Claim			1,505,127	
	Repayments Received to date			(1,475,024)	98.00
	Outstanding at 30/09/2016			30,103	
	Estimated Remaining			-	

As at the end of September the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negotiations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds may be made over the next few months.

3	Singer & Friedlander	1716	31/08/07	1,000,000	
	Singer & Friedlander	1740	31/10/07	1,000,000	
	Singer & Friedlander	1746	14/01/08	1,000,000	
	Total Principal			3,000,000	
	Interest due at point of administration 08/10/2008			175,256	
	Total of Claim			3,175,256	
	Repayments Received to date			(2,659,277)	83.75
	Outstanding at 30/09/2016			515,979	
	Estimated Remaining			47,629	

As at the end of September the Council had received £2.659m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m, with the majority of repayments estimated to be received by March 2017.

Summary					
	Total Principal			7,500,000	
	Interest			511,383	
	Total of Claim			8,011,383	
	Repayments Received to date			(6,688,733)	83.49
	Outstanding at 30/09/2016			1,322,650	
	Estimated Remaining			824,197	

- 1 Registered Bank in Iceland - In Administration under Icelandic Law
 2 & Registered Bank in UK - In Administration in UK by Ernst & Young
 3 Under English Law

Total Estimated Recovery (including Outstanding) 7,512,930
Total Estimated % Remaining 93.78%

Check Total Repayments
 Above (6,688,733)
 Reconciliation on Investment Database -6589099
 Icelandic Monitoring Spreadsheet -6688733

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AUDIT & GOVERNANCE COMMITTEE

30th March 2017

Report of the Director of Finance

FINAL ACCOUNTS 2016/17 – 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 2016/17 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

Recommendations

That:

- 1. the target of 26th May 2017 for closure of the final accounts and production of the Draft Statement of Accounts for 2016/17 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. Corporate Management Team (CMT) receive a fortnightly update until completion of the audit; and**
- 4. the Audited Statement of Accounts be presented to the Audit & Governance Committee on 27th July 2017.**

Executive Summary

The Accounts and Audit Regulations 2015, require that the Draft Statement of Accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. From 2017/18 there will be a legal requirement to produce the Draft Statement of Accounts by 31st May each year, and have them audited and approved before 31st July.

This earlier deadline has been known for some time and as such, for production of the statutory accounts for 2014/15 and 2015/16, a deadline for production of 31st May was set and achieved in most respects. As part of the 2015/16 audit, the External Auditors commented that the Finance Team are in a good place to achieve the earlier preparation of the accounts in future in line with the statutory requirement to inform the public earlier.

This year is the final opportunity to make sure appropriate procedures are in place to ensure that the above deadlines are met. As such, a full dry run has been planned for the closedown and preparation of the 2016/17 draft accounts by 26th May 2017, an earlier audit (commencing 12th June 2017) with the audited accounts to be approved by the Audit and Governance Committee before the end of 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 Councils' External Auditor's, (Grant Thornton - GT) assessment of the Council 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 26th May 2017;
- Detailed management quality assurance review by 9th June 2017;
- Submission to Grant Thornton (and to Members) on or before 9th June 2017;
- Report to Audit & Governance Committee on 27th July 2017;
- Latest publish date 31st July 2017.

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.

Future Changes

The Accounts and Audit Regulations 2015 have 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.

The Regulations bring forward the existing dates of **30 June and 30 September to 31 May and 31 July as from the accounts for 2017/18** for accounts being signed and certified by the Responsible Financial Officer and then approved and published. This period of notice is intended to give authorities time to make the necessary changes in their processes and auditing firms time to adjust their business models accordingly. But it is hoped that authorities will move to the new timetable as soon as they can; some indeed already comply.

For 2016/17 the Council plan to bring forward the completion date for the Statutory Accounts – with a target completion of 26th May in line with the new regulations.

Legal and Risk Implications

The Council has a statutory duty to prepare the Draft Statement of Accounts by 30th June 2017.

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.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	M H	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	M H	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	M H	Regular review and rescheduling of project timetable
4	Delay in receiving information from external parties / contractors	M H	Ensure regular contact with all concerned and continually monitor completeness of the information provided
5	Inadequate training	L M	Research available training, ensure all relevant staff attend, training budget to be adequate
6	Failure to identify all leases	L M	Ensure staff understand exactly what is involved / process to outline the requirements
7	Key staff leaving	L M	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 March through to early June to ensure completion of the Financial Statements by 26th May and submission to the external auditors by 9th June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadlines / key milestones will be closely monitored.

Report Author

Please contact Lynne Pugh, Chief Accountant extension 272.

Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2016/17) 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.

The Accounts and Audit Regulations 2015 require that the Draft Statement of Accounts be produced by 30th June, and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. This was successfully achieved for the 2015/16 financial year with draft accounts being prepared by the 31st May 2016 and audited accounts approved by the Audit and Governance Committee at its meeting on 22nd September - in compliance with the statutory deadline.

Between completion of the draft 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 2015/16 audit the only amendments to the Draft 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 2015/16 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2015/16 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** 31st 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 2015/16 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 2016/17.

2015/16 - Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A number of manual accruals were received after the deadline and 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 31/3/17, 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 1/4/17 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 30/4/17 at the latest.	Solicitor

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 2016/17 in preparation for the 2016/17 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.

This has already been discussed and agreed with Grant Thornton during the planning meeting held in January 2017 with further planning meetings scheduled during the coming weeks to communicate progress and discuss any issues that may arise.

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	CORPORATE REQUIREMENTS	LEAD OFFICER	DEADLINE
	FINAL ACCOUNTS 2016/17		
1	Temporary Reserve / Retained Fund information	ALL	14/04/2017
2	Review all outstanding orders and delete where necessary	ALL	03/03/2017
3	All "goods receipts" should be on e-financials by 31/03/17, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 03/03/17)	ALL	31/03/2017
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/17.) Refer to year end guidance	ALL	07/04/2017
5	Staff Holiday and Flexi Leave entitlement as at 31/03/17	ALL	07/04/2017
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	07/04/2017
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/17 and information returned to accountancy	ALL	05/04/2017
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/17 will be issued	ALL	05/04/2017
9	IT stock purchases and disposals (hardware and software) information	DTCP	05/04/2017
10	Bad debt information:	DF	07/04/2017
	e-financials Sundry Debtors and overpayments	DF	
	Homelessness and Housing Rents	DHH	
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	DAES	Draft by:
			01/04/2017
			Final Certified by:
			07/04/2017
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	07/04/2017
13	HAA SOCH Mortgage principal repayment information	DF	07/04/2017
14	Related Party Transaction information. Requirement to be sent by 21/03/17 - Approach at Committee if delayed	EDCS	07/04/2017
		S&MO	
15	Housing Capital salaries detailed by capital project	DAES	07/04/2017
16	Managers confirmation of continued existence and responsibility for assets	ALL	07/04/2017

Ref	CORPORATE REQUIREMENTS	LEAD OFFICER	DEADLINE
	FINAL ACCOUNTS 2016/17		
17	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	07/04/2017
18	Sale of council house enhancement information (Reg 14)(final quarter)	DAES	07/04/2017
19	Improvement grant reconciliation	DAES	07/04/2017
20	Collection fund information (NDR3)	EDCS	21/04/2017
		DF	
21	FRS17 Pension information from SCC Pension Fund	SCC	21/04/2017
22	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Internal Audit	28/04/2017
23	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	28/04/2017
24	Review potential post balance sheet events / impact on accounts	ALL	Up to 31/07/17

Audit Planning Timetable 2016/17

Date / Deadline	Completion of:	
23/01/17	Interim Visit (9 days) – walkthrough and early testing	
27/01/17	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc) key dates to be agreed with Grant Thornton	
Feb/ Mar 2017	Grant Thornton Year end Workshops	
22/03/17	Audit Planning Meeting / requirements	
30/03/17	Opinion audit plan to Audit & Governance Cttee	
26/05/17	Draft Statement of Accounts preparation	
2 weeks	Quality assurance	
09/06/17	Submission of Accounts (to GT / Members)	
09/06/17	High Level Audit Plan for 2016/17 Audit confirmed (for planning / management purposes)	
Early June	Engagement Lead review	
12/06/17	On Site Audit Commences (prepare working papers / reconciliations / quality assurance process) (DM)	
16/06/17	Weekly Meeting with Audit Manager (including emerging Governance report issues) - issues to date documented in one logical list i.e. no repeated issues	Accountants / Key Officers to be available for Auditor questions by appointment
23/06/17	Weekly Meeting with Audit Manager (DM/WG)	
30/06/17	Weekly Meeting with Audit Manager (DM/WG)	
07/07/17	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager (DM/ANO)	
Weekly	Draft list of audit amendments / issues received (subject to Engagement Lead review)	
14/07/17	Final list of audit amendments / issues received (after Engagement Lead review)	
By		
14/07/17	Close out meeting (with Engagement Lead review)	
14/07/17	Amended Statement of Accounts prepared	
14/07/17	Audit Findings Report received	
27/07/17	Audit Findings Report to Audit & Governance Committee	
27/07/17	Sign Off	
31/07/17	Publish at latest	

AUDIT & GOVERNANCE COMMITTEE

30th March 2017

Report of the Director of Finance

CHANGES TO THE CIPFA CODE OF PRACTICE AND PROPOSED ACCOUNTING POLICIES 2016/17

Purpose

To advise Members of the changes to the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and the proposed Accounting Policies for 2016/17.

Recommendations

That:

1. the changes to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom are considered; and
2. the proposed Accounting Policies for 2016/17 are approved.

Executive Summary

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. However the current complexity of the financial statements has not helped this accountability, particularly in how the amounts in the statements are easily reconciled to management accounting and in-year monitoring of budgets.

As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

Although there will be changes to the appearance of the accounts for 2016/17, they do not directly impact on the underlying accounting policies. ***Para 3.3.6.1 of the Code states 'There have been no changes to the requirements of the accounting policies, changes in accounting estimates and errors section of the Code since the 2015/16 Code'.***

The proposed accounting policies are presented at **Appendix A**. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect for the Statement of Accounts.

Apart from changes to the dates, these have not significantly changed from the 2015/16 policies. These do not depart from the provisions of the 2016/17 Code.

These policies have been presented at the June meeting in previous years within the Draft Accounts. This earlier adoption of the accounting policies will assist with production of the draft accounts by 31st May 2017. The aim is to have the audited accounts complete by 31st July 2017.

The changes to the Code of practice requirements for 2016/17 (summarised at **Appendix C**) includes amendments to the Code's provision on the presentation of financial statements to amend the reporting requirements for:

- a) the Comprehensive Income and Expenditure Statement (CIES);
- b) the Movement in Reserves Statement (MiRS);
- c) the removal of the Service Expenditure Analysis; and
- d) the introduction of an **Expenditure and Funding Analysis** (EFA) under "*telling the story*" with the intention of improving the presentation of local authority financial statements.

For 2016/17 the accounts will include **service segments** based on the way the Council operates and manage services. There is no longer a requirement for the service analysis to be based on the service expenditure analysis in the Service reporting Code of Practice (SerCOP). The new format, as detailed in the proposed updated 2015/16 format at **Appendix B**, means the service section of the CIES supports accountability and transparency as it reflects service structures within the Council.

The MiRS prescriptions have been reduced to an absolute minimum in the Code and will become less prominent. The code requires a summary of General Fund and HRA reserves (in total – now included as highlighted in **Appendix C**) – however, we propose to retain the breakdown between general balances and earmarked reserves.

The introduction of the EFA to the 2016/17 Code is intended to allow a clear link to be made between in-year monitoring, General Fund information and final outturn, closing the accountability loop from budgets through to outturn. This will be supported by the requirement to cross reference to the EFA within the management commentary which will help to provide a linkage between management and annual accounts.

The EFA demonstrates to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed and earned by authorities in accordance with generally accepted accounting practices. The EFA also shows how expenditure is allocated for decision making purposes between the Council's Directorates.

Full retrospective restatement of the 2015/16 CIES and EFA related information will have to be made. However there is no requirement for a restated balance sheet as there are no changes to that information as a result of new accounting policies.

Templates of the updated 2015/16 revised statements compared to the current statements are presented in **Appendix B**. The template shows the proposed revised structure of the CIES, reporting at a Directorate level. The revised statement shows draft 2015/16 balances.

The Funding Analysis takes the net expenditure chargeable to taxation and reconciles it to the CIES.

In addition it is intended that officers will continue to cut the clutter and remove immaterial disclosures

The potential perceived benefits are:

- The new presentation of the CIES and the EFA should make the statement easier for our users (in particular the lay reader) to understand as these statements are now based on the management and internal reporting structure rather than the Service Reporting Code of Practice (SERCOP).
- It will help officers to present the financial statements to members and other key stakeholders by improving the presentation of key information.
- It should provide users with a better understanding of the statutory adjustments (i.e. depreciation, absence accrual etc.) applied to the accounts to determine the movement on General Fund.

(The EFA has been designed as a bridge between the way in which we are required by proper accounting practice to report performance in the CIES and the arrangements put in place during the year to manage the budget).

- The detailed movement in the General Fund balance is no longer required to be reported on the face of the MiRS due to the consolidation of earmarked reserves and the General Fund Balance (and consolidation of earmarked reserves and the HRA Balance), **however it is recommended (and supported by Grant Thornton) that the detail continue to be shown with summary columns to ensure compliance with the Code.**

Overall the changes to the financial statements prescribed in the 2016/17 Code should provide better accountability and transparency and a clear link between in-year monitoring and final outturn.

For future years:

There are other significant upcoming changes to the Code in future years which include the provision for IFRS 9 which replaces IAS 39 Financial Instruments: recognition and measurement and IFRS 15 Revenue from Contracts with Customers. These do not apply until 2018/19 nevertheless the changes will inevitably involve considerable advance planning and preparatory work in the lead up to implementation and the 2017/18 Code will contain additional appendices containing the provisions for the introduction of these accounting standards.

Legal and Risk Implications

The Accounts and Audit Regulations 2015 require that the statement of accounts be produced by 30th June and require approval of the final audited accounts by the Audit & Governance Committee of the Council ('those charged with Governance') before 30th September. From 2017/18 there will be a legal requirement to produce the Statement of Accounts by 31st May each year, and have them audited and approved before 31st July.

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.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	M H	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	M H	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	M H	Regular review and rescheduling of project timetable
4	Inadequate training / lack of understanding of code changes	L M	Research available training, ensure all relevant staff attend, training budget to be adequate. Key staff attendance at training provided by Grant Thornton & Arlingclose.
5	Failure to identify all leases	L M	Ensure staff understand exactly what is involved / process to outline the requirements
6	Key staff leaving	L M	Ensure there are sufficient skills within the team to cover
7	Delay in receiving information from external parties / contractors	M H	Ensure regular contact with all concerned and continually monitor completeness of the information provided
8	Completion of Draft Accounts to earlier deadline	M H	Reviewed the approach in previous years (as well as dry run in 2014/15 and 2015/16), working papers and timetable to achieve earlier production.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
9	Potential for changes to the accounts following audit	M H	Earlier production will mean use of estimates and risk of error due to lack of information at date of draft production. Earlier review process has been carried out / earlier review of accounting policies.

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 March through to early June to ensure completion of the Financial Statements by 26th May. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadlines / key milestones will be closely monitored.

Report Author

Please contact Stefan Garner, Director of Finance extension 242 or Lynne Pugh, Chief Accountant extension 272.

Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2016/17) based on IFRS

Appendices

Appendix A – Accounting Policies 2016/17

Appendix B – Restated CIES, MiRS and EFA

Appendix C – Summary of Changes to the Code of Practice 2016/17

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NOTES TO THE ACCOUNTS

1. Accounting Policies

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the ~~2015/16~~2016/17 financial year and its position at the year end of 31st March ~~2016~~2017. The Accounts and Audit Regulations (England) 2015 require the Authority to prepare an Annual Statement of Accounts prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ~~2015/16~~ and the CIPFA Service Reporting Code of Practice 2016/17 ~~2015/16~~ (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of Non Current Assets and Financial Instruments.

2. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received, other than prepayments which are accounted for on a cash basis. In particular:

- a) Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- b) Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- c) Supplies are recorded as expenditure when they are consumed – where considered material, where there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet;
- d) Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- e) Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- f) Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Authority's policy is to review all accruals over £1k together with payments over £5k made in February, March and April to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

3. ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquired operations

The Authority has not acquired any operations during [2016/17](#)~~2015/16~~.

Discontinued Operations

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure Statement comprising the profit or loss of discontinued operations and the gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a unit that has been disposed of, or is classified as an Asset Held for Sale.

There were no discontinued operations in [2016/17](#)~~2015/16~~.

4. CASH AND CASH EQUIVALENTS

Cash is represented by Cash in Hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, Cash and Cash Equivalents are shown net of Bank Overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

5. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance. ~~During the year the former Golf Course at Eagle Drive was sold to Redrow Homes – for further details see Note 5 (page 55) Material Items of Income & Expense, and Note 9 (page 62) Other Operating Expenditure.~~

6. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of ~~Page 150~~ transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

7. CHARGES TO REVENUE FOR NON CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- a) depreciation attributable to the assets used by the relevant service;
- b) revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- c) amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

8. EMPLOYEE BENEFITS

a) Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. Healthshield cover) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual (based on data as at 31st December) is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

c) Post Employment Benefits - The Local Government Pension Scheme

The pension costs included in these accounts have been determined in accordance with government regulations and IAS 19. The standard requires the full recognition of the pensions liability (and the movement of its constituent parts) in the Comprehensive Income and Expenditure Statement. These requirements are included within the accounts in accordance with CIPFA recommended practice. Note **Error! Reference source not found.**³⁷ to the Core Financial Statements on page **99xx** refers.

The Local Government Pension Scheme (LGPS) is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013:

- i. The liabilities of the Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- ii. Liabilities are discounted to their value at current prices, using a discount rate of **2.93.5%**.

This is based on an approach whereby a Corporate Bond yield curve is constructed based on the constituents of the iBoxx AA Corporate Bond Index.

Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions) for individual employers, dependent on their own weighted average duration.

- iii. The assets of Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
- quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unitised securities – current bid price;
 - property – market value.
- iv. The change in the net pensions liability is analysed into the following components:
- **Current Service Cost:** The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - **Past Service Cost:** The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - **Interest Cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
 - **Expected Return on Assets:** The annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
 - **Gains or Losses on Settlements and Curtailments:** The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - **Re-measurement of the Net Defined Benefit Liability / (Asset):** Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
 - **Contributions paid to the Staffordshire Local Government Pension Fund:** Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and the Housing Revenue Account to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to current accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to

and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

d) Discretionary Benefits

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period (30th June) and the date when the Statement of Accounts is authorised for issue (30th September). Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- b) those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. FINANCIAL INSTRUMENTS

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Financial liabilities within the accounts consist of long term debt (PWLB) and bank overdraft carried at amortised cost. Other financial liabilities quoted are contractual creditors (less than 1 year) carried at contract amount. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/ settlement.

However, where any repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (up to a maximum of 10 years for the Housing Revenue Account).

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund or Housing Revenue Account is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b) Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market, these are included within the accounts at contractual amounts;
- Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The accounting requirements for impairing investments (such as investments placed with Icelandic Banks) have been made in line with CIPFA guidance with the loss included in the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in line with advice and information from the administrators.

11. FOREIGN CURRENCY TRANSLATION

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31st March ~~2016~~2017. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Within the accounts, this relates only to deposits from Glitnir Bank held in escrow in Iceland on our behalf.

12. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- a) the Authority will comply with the conditions attached to the payments, and
- b) the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. HERITAGE ASSETS

Heritage Assets are assets that are held by the Authority because of their cultural, environmental or historical value. Tangible Heritage Assets include historical buildings, paintings, sculptures / statues, archives and other works of art.

The Authority's Museum, Art and Civic Heritage Assets are held in various sites. The Museum Collection has four main collections, General Collection, Art, Furniture and Archaeological Collection and Ephemera.

The collections are used for education, learning, research, enjoyment and are preserved for the use of future generations.

- **Valuation of Heritage Assets**

The Code requires that Heritage Assets are measured at valuation in the 2016/17 ~~2015/16~~ financial statements (including the ~~2014/15~~2015/16 comparative information). The Authority will recognise in the Balance Sheet each asset shown in the table which has an identified value.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the Balance Sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.
- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the Balance Sheet at insurance valuation based on Market values.
- **Archaeological Collection and Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.
- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.
- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

14. INTANGIBLE ASSETS

Expenditure on non monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the Intangible Asset to the Authority.

15. INVESTMENT PROPERTY

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment Properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

16. JOINTLY CONTROLLED OPERATIONS AND ASSETS

A joint arrangement is an arrangement of which two or more parties have joint control where the parties are bound by an arrangement and the arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either:

- A joint venture; or
- A joint operation.

Joint operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of Property, Plant and Equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity.

The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs in its own behalf or jointly with others in

respect of its interest in the joint venture and income that it earns from the venture.

The Authority has a Joint Waste Management arrangement with Lichfield District Council which does not fulfil the definition of a joint venture or a joint operation – detailed at Note [Error! Reference source not found.32f](#)).

17. LEASES (IAS 17)

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

a) The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant and Equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

b) The Authority as Lessor

i. Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (Long Term Debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

ii. Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation;
- Non Distributed Costs – impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

19. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, subject to a de minimus level of £10k, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

b) Measurement

Assets are initially measured at cost, comprising:

- i. the purchase price;
- ii. any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- iii. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. ~~There were no assets under construction during 2015/16.~~

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement bases:

- i. Infrastructure, Community Assets and Assets Under Construction – historical cost;
- ii. Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH);
- iii. all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of fair value because of the specialised nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value. Where non property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. In the case of the Assembly Rooms and Cemeteries valuations, there is no active market and so DRC is used.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years – including a desktop review of all Council Dwellings where they have not been subject to a formal revaluation in the year. A review of the valuation of all significant assets is undertaken annually.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains); and then
- ii. where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

c) Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where the Authority has incurred capital expenditure on Council dwellings this is included within the Gross Book Value (GBV) and where it is not considered to add value it is included as impairment. These impairments are subject to write out following a full revaluation exercise (on a 5 yearly basis).

The Authority has an ongoing programme of regeneration including disposal and redevelopment of garage sites and the redevelopment of housing at Tinkers Green and Kerria Centre. Where the decision had been made to dispose of a garage site, the value of the buildings element has been impaired to zero leaving only a residual land value. Similarly, the value of the dwellings in the housing redevelopment areas that are no longer available to let have been impaired to zero leaving only a residual land value.

Where impairment losses are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains); and then
- ii. where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

d) Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction).

Depreciation is calculated on the following bases:

- i. **Council Housing Stock:** on a straight line basis to an appropriate residual value over the expected useful life of the asset of 50 years.
- ii. **Other Land and Buildings:** on a straight line basis to a nil residual value over the expected useful life of the asset being a range of 5 years to 70 years.

the expected useful life of the asset being over 100 years

- iii. **Vehicles, Plant and Equipment:** on a straight line basis to a nil residual value over the expected useful life of the asset, being between 1 and 20 years.
- iv. **Infrastructure:** on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.
- v. **Community Assets:** on a straight line basis to a nil residual value over the expected useful life of the asset of 100 years.
- vi. **Heritage Assets:** the Authority considers that the Heritage Assets held will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets.
- vii. **Computer Hardware:** is depreciated over a period of 3 years on a straight line basis to a nil residual value.
- viii. **Investment Properties and Surplus Assets:** no depreciation has been applied to either the land or building value of Investment Properties or Surplus Assets.
- ix. **Intangible Fixed Assets:** computer software licences are amortised to revenue over a period of 3 years.
- x. **Furniture and equipment** owned by the Authority is charged to revenue in the year of acquisition and is not capitalised in the accounts.
- xi. **De minimus items** of expenditure on computer equipment and software are capitalised under the concept of 'Grouped Assets' where the value of such items is material. A charge is made for these assets (depreciation for equipment and amortisation for software), calculated using the straight line method over a period of three years.

Depreciation, in the form of the capital element of finance leases is charged to the Comprehensive Income and Expenditure Statement in cases where the asset was acquired by way of a finance lease.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately – as detailed within the Component Accounting Policy for Property, Plant and Equipment.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

e) Disposals and Non Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non Current Assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

f) Component Accounting Policy for Property, Plant and Equipment

i. De Minimus Level

The de minimus threshold for the Authority is a current net book value of £250k. Individual assets with a value less than £250k will be disregarded for componentisation. This level will be reviewed annually.

ii. Policy for Componentisation

The code requires that each part of an asset should be separately identified and depreciated where the cost is significant in relation to the overall cost of the asset.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £250k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de minimus threshold;
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de minimus threshold;

iii. Valuation

The 5 year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be passed to the finance team and/or valuers who can consider componentisation for any properties not already reviewed.

iv. Impairment

We will continue to complete a desktop Impairment review on an annual basis.

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

b) Contingent Liabilities

A Contingent Liability arises where an event has taken place that gives the Authority a possible obligation, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Contingent Liabilities for 2016/17 2015/16 are outlined at Note Error! Reference source not found.38 on page 105xxx.

21. RESERVES

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund or Housing Revenue Account in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund or Housing Revenue Account in the Movement in Reserves Statement so that there is no net charge against Council Tax or housing rent for the expenditure.

Certain reserves are kept to manage the accounting processes for Non Current Assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies. Details can be found in Note Error! Reference source not found.8 to the Core Financial Statements on page 64xx.

22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a Non Current Asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund or Housing Revenue Account to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax or housing rent.

23. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

24. ACCOUNTING FOR COUNCIL TAX AND NATIONAL NON DOMESTIC RATES

The Authority, as a billing authority, acts as the agent of its major preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner (OPCC) Staffordshire and the Stoke on Trent and Staffordshire Fire and Rescue Authority).

The collection of National Non Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of its major preceptors (the Department for Communities and Local Government (DCLG), Staffordshire County Council and Stoke on Trent and Staffordshire Fire and Rescue Authority) and should be accounted for accordingly. It means that the Authority does not recognise NNDR debtors in its' Balance Sheet but instead recognises a creditor or debtor for the net balance due to or from the preceptors.

Under the accounting requirements, for both the billing authority and major preceptors, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The majority of transactions the Authority undertakes it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Authority acting as a Principal.

However there are some situations whereby the Authority is acting as an Agent, where the Authority is acting as an intermediary for all or part of a transaction or service. The two main instances where this occurs are in relation to Council Tax and Business Rates.

The implication of this is that any Balance Sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Authority's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from / to these parties.

25. FAIR VALUE MEASUREMENT

The Authority measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority uses internal and external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Authority's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

ORIGINAL Comprehensive Income and Expenditure Statement (CIES) – 2015/16

2014/15			Comprehensive Income & Expenditure Statement	Notes	2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
1,474	(763)	711	Central Services to the Public		1,573	(768)	805
4,661	(1,271)	3,390	Cultural and Related Services		4,324	(1,651)	2,673
4,990	(976)	4,014	Environmental and Regulatory Services		5,137	(1,712)	3,425
1,958	(549)	1,409	Planning and Development Services		1,984	(616)	1,368
828	(1,378)	(550)	Highways and Transport Services		1,006	(1,339)	(333)
10,780	(20,796)	(10,016)	Local Authority Housing (HRA)		14,751	(21,074)	(6,323)
27	(40)	(13)	Adult Social Care		81	(101)	(20)
24,622	(22,995)	1,627	Other Housing Services		23,544	(21,868)	1,676
1,915	(109)	1,806	Corporate and Democratic Core		1,608	(156)	1,452
-	(1,652)	(1,652)	Non Distributed Costs		18	-	18
51,255	(50,529)	726	Cost of Services		54,026	(49,285)	4,741
		121	Other Operating Expenditure				(15,547)
		1,875	Financing and Investment Income and Expenditure (FIIE)				255
		117	(Surplus) or Deficit of Discontinued Operations				4
		(8,657)	Taxation and Non Specific Grant Income				(8,795)
		(5,818)	(Surplus) or Deficit on Provision of Services				(19,342)
		(8,546)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets				(3,738)
		8,045	Re-measurement of the Net Defined Benefit Liability				(10,971)
		(501)	Other Comprehensive Income and Expenditure				(14,709)
		(6,319)	Total Comprehensive Income and Expenditure				(34,051)

REVISED Comprehensive Income and Expenditure Statement (CIES) – 2016/17

2015/16 Restated			2016/17				
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Comprehensive Income & Expenditure Statement	Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
245	(245)	-	Chief Executive				
22,756	(22,202)	554	Executive Director Corporate Services				
2,695	(1,387)	1,308	Director of Finance				
1,118	(426)	692	Solicitor to the Council				
1,438	(1,534)	(96)	Director of Technology and Corporate Programmes				
2,129	(1,793)	336	Director of Transformation and Corporate Performance				
4,816	(2,360)	2,456	Director of Communities, Planning and Partnerships				
9,567	(5,244)	4,323	Director of Growth, Assets and Environment				
1,864	(381)	1,483	Director of Communities, Partnerships and Housing				
230	(230)	-	HRA - Director of Growth, Assets and Environment				
6,289	(2,141)	4,148	HRA - Director of Communities, Partnerships and Housing				
8,602	(19,065)	(10,463)	HRA - Summary				
3,392	(3,392)	-	HRA – Housing Repairs				
65,141	(60,400)	4,741	Cost of Services				
		(15,547)	Other Operating Expenditure				
		255	Financing and Investment Income and Expenditure				
		4	(Surplus) or Deficit of Discontinued Operations				
		(8,795)	Taxation and Non Specific Grant Income				
		(19,342)	(Surplus) or Deficit on Provision of Services				
		(3,738)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets				
		(10,971)	Re-measurement of the Net Defined Benefit Liability				
		(14,709)	Other Comprehensive Income and Expenditure				
		(34,051)	Total Comprehensive Income and Expenditure				

Movement in Reserves Statement - Restated

**Movement in Reserves Statement
2015/16**

	General Fund Balance	Earmarked Reserves	General Fund	Housing Revenue Account Balance	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve HRA Note 3	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2015	4,912	5,919	10,831	5,957	8,023	13,980	134	3,898	48	28,891	76,256	105,147
Movement in Reserves during 2015/16												
Plus (Surplus) or Deficit on the Provision of Services	15,687	-	15,687	3,655	-	3,655	-	-	-	19,342	-	19,342
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	-	14,709	14,709
Total Comprehensive Income and Expenditure	15,687	-	15,687	3,655	-	3,655	-	-	-	19,342	14,709	34,051
Adjustments between accounting basis and funding basis under regulations (Note Error! Reference source not found.)	(13,850)	-	(13,850)	(1,576)	-	(1,576)	1,249	1,334	-	(12,843)	12,843	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	1,837	-	1,837	2,079	-	2,079	1,249	1,334	-	6,499	27,552	34,051
Transfers to / (from) Earmarked Reserves (Note Error! Reference source not found.)	(69)	41	(28)	(3,312)	3,340	28	-	-	-	-	-	-
Increase / (Decrease) in 2015/16	1,768	41	1,809	(1,233)	3,340	2,107	1,249	1,334	-	6,499	27,552	34,051
Balance as at 31st March 2016	6,680	5,960	12,640	4,724	11,363	16,087	1,383	5,232	48	35,390	103,808	139,198
	a	b	a+b	c	d	c+d+e	e					

Expenditure and Funding Analysis 2015/16

Expenditure and Funding Analysis 2015/16	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Chief Executive	1	(1)	-
Executive Director Corporate Services	492	62	554
Director of Finance	1,279	29	1,308
Solicitor to the Council	661	31	692
Director of Technology and Corporate Programmes	(280)	184	(96)
Director of Transformation and Corporate Performance	320	16	336
Director of Communities, Planning and Partnerships	2,055	401	2,456
Director of Growth, Assets and Environment	3,599	724	4,323
Director of Communities, Partnerships and Housing	1,162	321	1,483
HRA - Director of Growth, Assets and Environment	(8)	8	-
HRA - Director of Communities, Partnerships and Housing	3,844	303	4,147
HRA - Summary	(10,777)	315	(10,462)
HRA – Housing Repairs	-	-	-
Net Cost of Services	2,348	2,393	4,741
Other Income and Expenditure	(6,265)	(17,817)	(24,082)
(Surplus) or Deficit on Provision of Services	(3,917)	(15,424)	(19,341)

Changes to the 2016/17 Code

The Council have identified changes that will be required from the 2016/17 Code and will ensure that they are reflected in the 2016/17 financial statements.

The Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been based on International Financial Reporting Standards (IFRS) since 2010/11. An updated Code of Practice, applicable for 2016/17 was issued in March 2016.

Changes reflected in the 2016/17 updated Code and any subsequent supplementary updates do, on the whole, have to be incorporated into the Council's accounts but do not necessarily impact on the Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

The changes to the Code of practice requirements for 2016/17 includes amendments to the Code's provision on the presentation of financial statements to amend the reporting requirements for the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the removal of the Service Expenditure Analysis and the introduction of an Expenditure and Funding Analysis (EFA) under the "*telling the story*" with the intention of improving the presentation of local authority financial statements.

The 2016/17 Code included moving to measuring Highways Network Assets (HNA) in accordance with the methodologies specified in the Code of Practice on Highway network assets i.e. at depreciated replacement cost (DRC) instead of historical cost and the creation of a new Highways Network Asset. In November 2016 CIPFA-LASAAC agreed to defer HNA current value implementation until 2017/18 at the earliest due to lack of centrally updated Gross Replacement Cost (GRC) rates, which were to be provided by the UK Government.

There are other significant upcoming changes to the Code in future years which include the provision for IFRS 9 which replaces IAS 39 Financial Instruments: recognition and measurement and IFRS 15 Revenue from Contracts with Customers. These do not apply until 2018/19 nevertheless the changes will inevitably involve considerable advance planning and preparatory work in the lead up to implementation and the 2017/18 Code will contain additional appendices containing the provisions for the introduction of these accounting standards.

There have been a few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2016/17:

	Change	Relevant to the Council
1	<p>Highways Network Asset (Section 4.1)</p> <p>The 2016/17 Code specifies the revised measurement requirements as Depreciated Replacement Cost for the Highways Network Asset.</p> <p>Currently infrastructure assets are valued at historic cost. The Code includes specific accounting policies for the initial recognition, measurement, derecognition and disclosure requirements for the Highways Network Asset. Consequential amendments are also required, principally to the section on Property, Plant and Equipment.</p> <p>On 14th November 2016, CIPFA/LASAAC announced the postponement of the implementation date to 1 April 2017. The decision to defer implementation was taken as a result of key information required from Central Government, regarding central rates to be used in the calculation, not being available in good time for the 2016/17 financial statements. The position will be reviewed in March with a view to implementation in 2017/18.</p> <p>Whilst implementation was not deferred due to concerns regarding local authorities' readiness to meet the Highways Network Asset Code requirements, it nevertheless provides Councils with the time to improve the integrity of the data inputs, and the opportunity to further consider the valuation procedures as part of the 2016/17 accounts 'close down'. Cipfa have confirmed that only Highways Authorities are required to comply with the requirements of the code and as such, it does not apply to District Councils.</p>	No
2	<p>Presentation of the financial statements (Section 3.4)</p> <p>The Code includes changes resulting from the 'Telling the Story Review' on improving the presentation of local authority financial statements. These include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS) and the introduction of an Expenditure and Funding Analysis and an Income Analysed by Nature note.</p> <p>Comprehensive Income and Expenditure Statement (CIES)</p>	Yes

	Change	Relevant to the Council
	<p>The 2016/17 Code now requires the service segments section of the CIES to be provided in the way in which local authorities organise themselves and manage financial performance. It is no longer based on the full Service Reporting Code of Practice (SeRCOP) definition of total cost. This means overhead apportionment will depend on the way in which an authority operates or manages its services and its segmental reporting arrangements. The 2016/17 Code confirms that each segment should include the appropriate charges for the use of its non-current assets (e.g. depreciation, impairment and impairment reversals) and employee benefits as defined in IAS 19 Employee Benefits.</p> <p>Movement in Reserves Statement (MIRS)</p> <p>The 2016/17 Code has removed the lines for earmarked reserves and their transfers, as the earmarking of reserves has no formal status in financial reporting or statute for local government and as such the earmarking process does not take funds out of the General Fund. Analysis of the General Fund is disclosed in the notes to the accounts. The Surplus or Deficit on the Provision of Services line has been removed from the MIRS and is now incorporated in the Total Comprehensive Income and Expenditure line.</p> <p>The Movement in Reserves Statement (MIRS) disclosure has been reduced to a minimum in comparison with previous years. Earmarked reserves no longer have to be presented within the MIRS as distinct from the General Fund Balance. However, the detail of reserves identified for specific purposes will be set out elsewhere in the Statements.</p> <p>Expenditure and Funding Analysis (EFA)</p> <p>The 2016/17 Code has introduced the new EFA statement which takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES. To demonstrate accountability and to meet segmental reporting requirements it is necessary to reconcile to the statutory position on the General Fund balance. The service analysis for both the EFA and the CIES are now presented in the way in which an authority organises itself and manages financial performance.</p>	

	Change	Relevant to the Council
	<p>The Expenditure and Funding Analysis (EFA) will show how annual expenditure is used and funded from resources in comparison with the accounting basis for those items. It also shows how the expenditure is allocated for decision making purposes between directorates/services. The EFA will take the net expenditure that is chargeable to taxation/rents and reconcile it to the CIES Surplus or Deficit on the Provision of Services. This change has enabled the previous segmental reporting requirements to be streamlined.</p> <p>Full retrospective restatement of the 2015/16 CIES and EFA related information will have to be made. However there is no requirement for a restated balance sheet as there are no changes to that information as a result of the new accounting policies.</p>	
3	<p>The Narrative Report (Section 3.1)</p> <p>The Accounts and Audit Regulations 2015 introduced a new requirement for English authorities to produce a Narrative Statement, providing an accessible guide to the most significant matters reported in the accounts. The statement must include comment by the Council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The Narrative Statement should be fair, balanced and understandable for the users of the financial statements.</p> <p>The requirement for a Narrative Statement (previously the Explanatory Foreword) arose in 2015/16 following an Update to the 2015/16 Code and this was included in the 2015/16 Statement of Accounts. External Audit identified that there are opportunities for the Council to enhance its Narrative Statement to more clearly comply with the requirements and this will be a consideration in preparing the 2016/17 Statement of Accounts.</p> <p>The narrative report needs to be prepared so that it is consistent with the Statement of Accounts but is not formally bound by true and fair requirements.</p>	Yes

	Change	Relevant to the Council
	<p>IAS 24 Related Party Disclosures (Section 3.9)</p> <p>The definition as to whom this disclosure relates has been amended and now also includes key management personnel. Key management personnel are chief officers, elected members, Chief Executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority. The 2015/16 Statement of Accounts included Members, Councillors and Senior Officers in addition to other public bodies. We have previously provided more information than the guidelines required, as we included senior officers, and therefore this change will not require any further disclosure.</p>	Yes
	<p>Statement Reporting Reviews of Internal Controls (Section 3.8)</p> <p>An update for the changes to the <i>Delivering Good Governance in Local Government: Framework (2016)</i> published by CIPFA and SOLACE.</p>	Yes
	<p>Group Accounts (Chapter 9)</p> <p>Amendments for the changes relating to IFRS 11 <i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> and to include an interpretation of IAS 27 <i>Separate Financial Statements</i> where the option to equity account for investments in subsidiaries, associates or joint ventures is withdrawn.</p>	No
	<p>Earlier closedown</p> <p>The Accounts and Audit Regulations 2015 require local authorities to approve and publish the accounts by 31 May and 31 July respectively (currently 30 June and 30 September) effective from the accounts for the year 2017/18. Preparation for these earlier closedown requirements is underway and the Statement of Accounts 2016/17 will be a trial run to ensure the Council is equipped to meet this requirement. The first full draft of the financial statements is anticipated to be produced by mid May 2017.</p>	Yes

	Change	Relevant to the Council
	<p data-bbox="259 316 913 347">Rights of Access to the Statement of Accounts</p> <p data-bbox="259 384 1753 483">The Accounts and Audit Regulations 2015 extended the period for exercise of Public Rights (which include rights of objection, inspection of the local authority accounting documentation and questioning of the external auditor) to 30 working days. During this period the Council must make all relevant documents available for public inspection.</p> <p data-bbox="259 520 1816 619">The Regulations also require that the period for the exercise of public rights includes the first 10 working days of June of the financial year immediately following the end of the financial year being reported, although transitional arrangements amend this to the first 10 working days of July for reporting of financial years 2015/16 and 2016/17.</p> <p data-bbox="259 691 1827 821">At present local electors can exercise public rights, however, under the Local Audit (Public Access to Documents) Bill—currently being discussed in the House of Commons—this right may be extended to journalists as ‘interested parties’. This would also enable journalists to have access to the accounting records and supporting documents for the relevant year where they are not otherwise an ‘interested person’.</p> <p data-bbox="259 858 1827 989">The extension of the right to inspect and make or request copies of local authority accounts documentation is intended to increase transparency. This may lead to additional resources being taken up responding to queries. The extension of the right to inspect accounts could also lead to journalists having the right to lodge objections to the accounts, just as local electors may do already. There is strong opposition to this and Government are being lobbied to not allow this.</p>	Yes

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE:

CIPFA have consulted and confirmed on some of the proposed changes to the 2016/17 Code of Practice, and have also provided indications of further potential changes that are likely to be reflected in updates to the 2017/18 Code and beyond.

Early Accounts Closure from 2017/18

The Council has been notified that from 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

The Council is already reviewing its processes to meet these significant challenges. There will also be additional pressure on External Auditors to meet much more challenging timescales.

Leases

The Council are aware that CIPFA are considering the implications of adopting IFRS 16 – Lease. It is anticipated that IFRS 16 could potentially be introduced from January 2019.

The Council understand that the definition of a finance lease is to be extended, which may create an accounting implication that the associated lease needs to be capitalised as an asset (with a corresponding liability extending over the life of the lease) on the lessee's balance sheet.

Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases may need to be reclassified as finance leases, which could have prudential borrowing implications for the Council.

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AUDIT & GOVERNANCE COMMITTEE

30 MARCH 2017

Report of Solicitor to the Council and Monitoring Officer

STANDARDS ALLEGATION COMPLAINT

Purpose

To advise Members on a recent complaint received in relation to an alleged breach of the Code of Conduct which occurred under the local arrangements that were put in place to deal with Standards allegations, in terms of the Localism Act 2011, by Council on 19 June 2012.

Recommendation

Members are requested to endorse the findings of the contents of the report.

Executive Summary

The current complaint was lodged by a member of the public on 28 February 2017.

In terms of the Policy for dealing with complaints of this nature the Monitoring Officer reviewed the complaint and applied the preliminary tests required. Informal contact was made with the Councillor against whom the complaint had been lodged. A resolution was proposed which was accepted thus it invoked the procedure to resolve the issue without resorting to the investigation process. The action taken was in accordance with the Arrangements for Dealing with Standards Allegations under the Localism Act 2011 that were adopted at Council on 19 June 2012

Thus the complaint was dealt with as follows:

On 15 March 2017 the Councillor posted an explanation in relation to what he had said and an apology on Facebook and Twitter. The complainant was advised in writing of the matter on the same day.

Options Considered

The procedure for dealing with complaints against a Councillor for an alleged breach of the Code of Conduct requires the Monitoring Officer to report Informal Resolutions to the Audit and Governance Committee for information.

Resource Implications

As the matter has been resolved using the informal resolution process the resources utilised have been totally contained within corporate budgets.

Legal/Risk Implications

Without a process to deal with complaints of this nature against members the authority would be operating ultra vires and risk legal action and/or damage to reputation. The cost in financial terms could be significant.

Sustainability Implications

The process and policy for dealing with complaints of this nature provides as robust a system as possible in the current legislative climate. The process and policy is kept under review and amended in line with Council protocols.

Background Information

Since the establishment of the new arrangements from June 2012 I can confirm that the system adopted in relation to Standards allegations has operated satisfactorily and high standards of conduct are being maintained in the Authority. The legislation does not give the Council any powers to impose sanctions, such as suspension or requirements for training or an apology, on Councillors in relation to a breach of conduct. Accordingly, where a failure to comply with the Code of Conduct is found, the range of sanctions which the Authority can take in respect of the Councillor is limited and must be directed to securing the continuing ability of the Authority to systematically discharge its functions effectively, rather than “punishing” the Councillor concerned.

Report Author

Jane M Hackett, Solicitor to the Council & Monitoring Officer (Extn: 258)

List of Background Papers

Localism Act 2011

Report to Council dated 19 June 2012 – Changes to the Standards Regime
Procedure for dealing or making complaints against a Councillor for an
Alleged Breach of the Code of Conduct.

AUDIT AND GOVERNANCE COMMITTEE

30th MARCH 2017

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

Angela Struthers, Head of Internal Audit Services ex 234

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix A - Audit & Governance Committee Self Assessment 2016/17

Audit & Governance Committee Self Assessment 2016/17

	Area	Yes	No	Part
1	Terms of Reference			
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 to the directly to the Full Council on an annual basis?			
2	Internal Audit Process			
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 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	External Audit Process			
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	Regulatory Framework			
4.1	<p>Does the Committee take a role in overseeing</p> <ul style="list-style-type: none"> • Risk management strategies and the actions taken to manage the risks • Annual Governance Statement • Counter-fraud arrangements – including the Counter Fraud Policy and Whistleblowing Policy • Financial Guidance – including Financial Regulations & Contract Standing Orders • Constitution • Complaints handling/ombudsman's report • RIPA Policy and updates? 			
5	Accounts			
5.1	Does the Committee take a role in overseeing the annual statement of accounts?			
6	Standards of Conduct			
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	Membership			
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	Meetings			
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	Training			
9.1	Is induction training provided to members?			
9.2	Is more advanced training available as required?			

	Area	Yes	No	Part
10	Administration			
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?			

AUDIT & GOVERNANCE COMMITTEE

30th MARCH 2017

Report of the Head of Internal Audit Services

INTERNAL AUDIT CHARTER AND PLAN 2017-18

EXEMPT INFORMATION

None

PURPOSE

To advise Members of the proposed Internal Audit Charter and Plan for 2017-18, to provide Members with assurance on the appropriate operation of Internal Audit.

RECOMMENDATION

That the Committee endorses the attached Internal Audit Charter and Plan 2017-18 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 1st 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 2017–18 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

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 2017/18

Appendix B – Internal Audit Plan 2017/18



INTERNAL AUDIT CHARTER

Document Status: Draft

Originator: A Struthers

Updated: A Struthers

Owner: A Struthers

Version: 01.01.05

Date: 08/03/17

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 st 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

Approvals

Name	Title	Signature	Date
Audit & Governance Committee	Committee Approval		
Tony Goodwin	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; and
- 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.

Post	Designation
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.

This information can be produced on request in other formats and languages

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
- Co-ordinating 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 (CAE) responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

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; and
- 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;

This information can be produced on request in other formats and languages

- 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; and
- 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; and
- 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; and
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

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 CAE 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 Internal Audit 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 CAE will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

10 Internal Audit Plan

At least annually, the CAE 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 remaining required and 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); and

- 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 CAE following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued to the 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 Covalent system for management to complete.

Results of implementation reviews will be communicated as appropriate with copies to the 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 CAE 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 CAE 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 - 2017/18**AREA OR SUBJECT OF REVIEW****Risk Rating****Audit type****KEY FINANCIAL SYSTEMS**

Main accounting & budgetary control	Medium	Key Financial System - full	12
Treasury management	Medium	Key Financial System - interim	5
Creditors & procurement	Medium	Key Financial System - interim	5
Debtors	Medium	Key Financial System - full	12
Council tax	Medium	Key Financial System - interim	5
NNDR	Medium	Key Financial System - interim	5
Payroll	Medium	Key Financial System - interim	5
Bank rec & cash	Medium	Key Financial System - interim	5
Housing & council tax benefits	Medium	Key Financial System - interim	5
Capital strategy & programme management	Medium	Key Financial System - full	12
Housing rents	Medium	Key Financial System - interim	5
Capital contracts	High	Key Financial System - annual testing	12
Housing responsive repairs	High	Key Financial System - annual testing	20

STRATEGIC & OPERATIONAL RISKS

Insurance	Medium	System based review	6
Taxi Licences	Medium	System based review	7
Housing Services	Medium	risk based review	7
Scheme of Delegation	Medium	risk based review	7
legal compliance	Medium	System based review	7
VAT	Medium	risk based review	7
corporate policy management	Medium	System based review	7
performance management	Medium	System based review	7
time recording & absence management	Medium	risk based review	8

Street Wardens	Medium	risk based review	7
Equalities	Medium	System based review	7
Joint service provisions/SLA's	Medium	System based review	8
Safeguarding	Medium	System based review	7
Emergency Planning	Medium	System based review	8

ICT AUDIT REVIEWS

Network Controls	High	IT Audit	7
Efin application review	Medium	IT Audit	8
Websites	High	IT Audit	8
Orchard application review	Medium	IT Audit	8
CX Air application review	Medium	IT Audit	7
IT Governance	High	IT Audit	8

CONSULTANCY

Community development - critical friend role	Medium		6
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IMPLEMENTATION REVIEWS

30

ANNUAL GOVERNANCE & ASSURANCE FRAMEWORK

Annual governance statement	High	Assurance work	13
Annual audit opinion	High	Assurance work	3
Annual audit planning & review	High	Assurance work	6
Internal audit quality assurance & improvement programme	High	Assurance work	8
Review of financial guidance	High	Assurance work	2

REVIEW WORK COMPLETED ON BEHALF OF STAFFORDSHIRE COUNTY COUNCIL

Pension contributions	Medium	Substantive testing	7
DFG's	Medium	Substantive testing	5

CORPORATE SUPPORT

Governance training			5
Audit & governance committee support			15
External audit liaison			2
Contingency			17

TOTAL AUDIT DAYS **373**

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Approvals

Name
Audit & Governance Committee - Chair
CMT - Chief Executive
Head of Internal Audit Services

Signature	

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PLANNED REPORTS TO AUDIT AND GOVERNANCE COMMITTEE

	Report	Committee Date	Report Of	Comments
1	Role of the Audit Committee	June	Grant Thornton	Presentation/training
2	Audit and Governance Committee Update	June	Grant Thornton	
3	Fee Letter	June	Grant Thornton	
4	Review of the Constitution and Scheme of Delegation for Officers	June	Solicitor to the Council and Monitoring Officer	
5	Internal Audit Annual and Quarterly Update	June	Head of Internal Audit	
6	Quality Assurance & Improvement Programme	June	Head of Internal Audit	
7	Review of the Effectiveness of Internal Control Environment	June	Head of Internal Audit	To include the review of the effectiveness of internal audit, compliance with PSIAS, roles of the CFO and HIAS
8	Annual Governance Statement and Code of Corporate Governance	June	Head of Internal Audit	
1	Audit Findings Report	July	Grant Thornton	

2	Management Representation Letter	July	Grant Thornton	
3	Annual Statement of Accounts	July	Executive Director Corporate Services	
4	RIPA Quarterly Report	July	Solicitor to the Council and Monitoring Officer	
5	Risk Management Quarterly Update	July	Head of Internal Audit	
6	Counter & Corruption Fraud Update	July	Head of Internal Audit	
7	Internal Audit customer satisfaction survey	July	Head of Internal Audit	
1	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2016/17	September	Executive Director Corporate Services	
2	RIPA Quarterly Report	September	Solicitor to the Council and Monitoring Officer	
3	Local Government Ombudsman's Annual Review and Report 2015/16	September	Solicitor to the Council and Monitoring Officer	
7	Internal Audit Quarterly Update	September	Head of Internal Audit	
8	Risk Management Quarterly Update	September	Head of Internal Audit	
1	Members/Standards	October	Solicitor to the Council and Monitoring Officer	

2	Anti Money Laundering Policy	October	Solicitor to the Council and Monitoring Officer	
3	Internal Audit Quarterly Update	October	Head of Internal Audit	
4	Risk Management Quarterly Update	October	Head of Internal Audit	
5	Annual Governance Statement Update	October	Head of Internal Audit	
1	Audit Report on Certification Work	February	Grant Thornton	
2	Audit Progress Report	February	Grant Thornton	
3	Annual Audit Letter	February	Grant Thornton	
4	RIPA Quarterly Report	February	Monitoring Officer Solicitor to the Council and	
5	Internal Audit Quarterly Update	February	Head of Internal Audit	
6	Risk Management Quarterly Update	February	Head of Internal Audit	
7	Counter Fraud Update	February	Head of Internal Audit	
1	Draft Audit Plan	March	Grant Thornton	
2	Draft Certification Work Plan	March	Grant Thornton	
3	Audit Committee Update	March	Grant Thornton	

4	Auditing Standards	March	Grant Thornton	
5	Informing the Audit Risk Assessment	March	Grant Thornton	
6	Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report	March	Executive Director Corporate Services	
7	Final Accounts – Action Plan	March	Director of Finance	
8	RIPA Quarterly Report	March	Monitoring Officer Solicitor to the Council and	
9	Internal Audit Charter and Audit Plan	March	Head of Internal Audit	
10	Audit and Governance Committee Self Assessment	March	Head of Internal Audit	
11	Review of Financial Guidance	March	Head of Internal Audit	