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Horsham District Council

Accounts, Audit & Governance Committee

Wednesday 6th January 2016 at 6.00pm
Hastings & Knepp Rooms, Parkside, Chart Way, Horsham

Councillors: Godfrey Newman (Chairman)
Stuart Ritchie (Vice-Chairman)
Paul Clarke
Brian Donnelly
Ian Howard
Adrian Lee
Paul Marshall

You are summoned to attend the meeting to transact the following business

Tom Crowley
Chief Executive

Agenda

		Page No.
1.	Apologies for absence	
2.	To approve as correct the minutes of the meeting of the Committee held on 23rd September 2015 (attached)	1
3.	To receive any declarations of interest from Members of the Committee	
4.	To receive any announcements from the Chairman of the Committee or the Chief Executive	
5.	Annual Audit Letter 2014/15 – ***see separate appendix***	
6.	Annual Audit and Certification Fees 2015/16	7
7.	Audit Progress Report	11
8.	Treasury Management Strategy 2016/17	23
9.	Treasury Management Activity and Prudential Indicators Mid-year report 2015/16	41
10.	Risk Management – Quarterly Update	51
11.	Internal Audit – Quarterly Update Report	63
12.	Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	
13.	To consider the following exempt or confidential information:	

	Reason for Exemption	
Internal Audit – Quarterly Update on Audit Follow-ups	Paragraph 3	71

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
23rd SEPTEMBER 2015

Present: Councillors: Stuart Ritchie (Vice-Chairman), Paul Clarke, Brian Donnelly, Ian Howard, Adrian Lee, Paul Marshall

Apologies: Councillor: Godfrey Newman (Chairman)

Also present: Councillors: Leonard Crosbie, Christian Mitchell
Paul King, Audit Director, Ernst & Young
Hannah Lill, Manager, Ernst & Young
Katharine Eberhart, Director of Corporate Resources
Dominic Bradley, Head of Finance
Emma Thomas, Corporate Accountant
Paul Miller, Chief Internal Auditor
Julian Olszowka, Group Accountant (Technical)

AAG/18 MINUTES

The minutes of the meeting held on 23rd June 2015 were approved as a correct record and signed by the Chairman.

AAG/19 DECLARATIONS OF INTEREST

There were no declarations of interest.

AAG/20 ANNOUNCEMENTS

There were no announcements.

AAG/21 AUDIT RESULTS REPORT FOR THE YEAR ENDING 31ST MARCH 2015

Paul King, Audit Director, Ernst & Young, presented the Audit Results Report for 2014/15. He indicated that he anticipated issuing an unqualified audit opinion on the Council’s financial statements. He also noted that the statements were of good quality and had been prepared in a timely fashion with good supporting working papers.

The Auditor also anticipated issuing an unqualified value for money opinion and acknowledged the significant scale of the financial challenge faced by the Council in the near future. It was noted that the Auditors had received no questions or objections from members of the public.

It was also noted that the actual audit fee was in line with the audit plan.

RESOLVED

That the report be noted.

AAG/22 **LETTER OF REPRESENTATION 2014/15**

The Director of Corporate Resources submitted the letter of representation to the External Auditor to Committee for approval.

RESOLVED

That the Letter of Representation be approved and signed by the Director of Corporate Resources and the Chairman of the Committee.

AAG/23 **STATEMENT OF ACCOUNTS 2014/15**

The Director of Corporate Resources presented the Statement of Accounts 2014/15, on which the External Auditor anticipated issuing an unqualified audit opinion.

Members of the Committee had had the opportunity to discuss the accounts and raise any questions or issues at a recent workshop.

RESOLVED

That the 2014/15 Statement of Accounts be approved.

REASON

There is a statutory duty for the Council to approve the Statement of Accounts each year

AAG/24 **ANNUAL GOVERNANCE STATEMENT 2014/15**

The Director of Corporate Resources reported that the Accounts and Audit (England) Regulations 2011 required the Council to review, at least once a year, the effectiveness of its governance arrangements and to publish an Annual Governance Statement. The draft Statement had been considered at the last meeting of the Committee, when Members had been invited to submit any comments to the Director of Corporate Resources (Minute No. AAG/13 (23.6.15) refers).

The review included information and assurance gathering processes to ensure that the published Annual Governance Statement was correct, as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process was to ensure that the Council had effective governance, risk management and internal control processes in place to

AAG/24 Annual Governance Statement 2014/15 (cont.)

assist with accountability and the delivery of objectives. Additionally, the review process identified any shortfalls in these arrangements to enable them to be addressed.

RESOLVED

That the Annual Governance Statement for 2014/15 be approved.

REASON

There is a statutory duty for the Council to approve the Annual Governance Statement each year.

AAG/25 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2014/15**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for 2014/15.

The report confirmed that, during 2014/15, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit (the Authorised Limit) had not been breached.

The report contained details of the Council's external debts and investments and reviewed the economic background to Treasury Management activity in 2014/15.

RESOLVED

(i) That the treasury management stewardship report for 2014/15 be noted.

(ii) That the actual prudential indicators for 2014/15 be noted.

REASON

The annual treasury report is a requirement of the Council's reporting procedures. The report also covers the actual Prudential Indicators for 2014/15 in accordance with the requirements of the relevant CIPFA Codes of Practice.

AAG/26 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

The Director of Corporate Resources presented the latest quarterly update of the Corporate Risk Register.

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk.

RESOLVED

That the report be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/27 INTERNAL AUDIT – QUARTERLY UPDATE REPORT

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since June 2015.

A summary of audit findings in respect of Fuel Cards (which had achieved an overall audit opinion of satisfactory assurance); and Staff Loans and BACS (limited assurance) was submitted.

It was noted that the audit plan for 2015/16 was currently on schedule.

RESOLVED

That the summary of audit work undertaken since June 2015 be noted.

REASONS

(i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.

(ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/28 URGENT MATTERS

There were no urgent matters to be considered.

AAG/29 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/30 INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)

The Chief Internal Auditor submitted a report summarising progress since June 2015 on the implementation of actions in respect of audits undertaken in 2015/16, 2014/15, 2013/14 and 2012/13.

It was noted that the number of agreed actions outstanding had reduced considerably since the last report.

RESOLVED

(i) That progress in terms of agreed actions implemented since June 2015 be noted.

(ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

RESOLVED

The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

The meeting finished at 7.12pm having commenced at 5.30pm.

CHAIRMAN

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Tom Crowley
Chief Executive
Horsham District Council
Park North
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West Sussex RH12 1RL

2 April 2015

Ref: GPS/HDC/15.16/auditfeeletter/1

Direct line: 0118 928 1556

Email: PKing1@uk.ey.com

Dear Tom

Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Horsham District Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our framework contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until the contract ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Horsham District Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year. As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of Fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	50,094	66,792	66,792
Certification of claims and returns	12,360	16,510	16,480[1]
Total	**62,454**	**83,272**	**85,549**

[1] The fee shown is the fee to certify the claim. We have since received a letter from the Department for Work and Pensions requesting further work. There will be an additional fee for this work now that it has been completed.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in four quarterly instalments of £15,613.50.

Audit Plan

We expect to issue our plan for the audit of the financial statements in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Accounts, Audit and Governance Committee.

Audit team

The key members of the audit team for the 2015/16 financial year are:

Paul King **Director**	PKing1@uk.ey.com	Tel: 0118 928 1556
Hannah Lill **Assistant Manager**	HLill@uk.ey.com	Tel: 07896 684762
Saqib Abbas **Lead Executive**	SAbbas@uk.ey.com	Tel: 07467441788

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Paul King
Director
Ernst & Young LLP
United Kingdom

cc. Katharine Eberhart, Director of Corporate Resources
Cllr David Holmes, Chair of the Accounts, Audit and Governance Committee

Horsham District Council

Audit Committee Progress Report

December 2015

Building a better working world

Building a better working world

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INVESTOR IN PEOPLE

The Members
Accounts, Audit and Governance Committee
Horsham District Council
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22 December 2015

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Accounts, Audit and Governance Committee in September 2015. The purpose of this report is to provide the Committee with an overview of our plans for the 2015/16 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

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

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

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

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

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

Work completed

2015/16 audit

Financial statements audit

We issued our audit fee letter in April 2015 after discussion with officers and this is attached to this report for your attention.

We will start our audit planning and risk assessment in the latter part of 2015 with the aim of issuing our Audit Plan to the meeting of the Committee scheduled for March 2016.

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held a de-brief meeting with key officers to discuss how we can work together to improve the accounts production and audit process for 2015/16. Overall we agreed the 2014/15 audit went more smoothly than 2013/14, with better communication between officers and the audit team. We will continue to liaise with officers to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

We have set out an outline timetable for the audit in Appendix 1.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned to commence in December 2015 and continue in February 2016.

Post Statements audit

We have discussed the timing of our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to carry out our post-statements work in July 2015.

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

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

The NAO has consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for clinical commissioning groups, can be viewed on the NAO website: http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/.

The overall criterion for 2015/16 is:

- In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

And the sub criteria are:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Reporting requirements:

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out in paragraphs above. However, in a change from last year, rather than issuing a conclusion by reference to the above criterion, we will report by exception only. If we do report by exception, it will be done by reference to the same criterion and sub-criteria.

2014/15 Grant Certification Work

We completed the initial testing of your 2014/15 housing benefit subsidy claim in June 2015 and the final testing in November 2015. On discussion with officers we agreed to amend the claim form, in line with the guidance, for all areas where we had been able to test 100% of the population involved. We certified the amended subsidy claim by the deadline of 30 November 2015, submitting our qualification letter to the DWP dated 26 November 2015.

As part of Census's action plan, they performed a large amount of work during 2014/15 to provide training to staff members and correct claims. This resulted in a high level of LA error and administrative delay overpayments before we commenced our audit. The total of the extrapolations and errors in the qualification letter amounted to £42,572, which increased Eligible overpayments by £35 and LA error and administrative delay overpayments by £42,537. Where extrapolations impact the LA error and administrative delay overpayments balance, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the extrapolations and where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £164,717 and the total of the amended claim form total (£145,679) and the extrapolation effect on the LA error and administrative delay overpayments (£42,537) is £188,216. This breaches the threshold and therefore the subsidy claim form total for LA error and administrative delay overpayments of £145,679 is required to be repaid to the DWP.

The DWP has responded to our qualification letter and as a result of our testing and confirm that the amount due to be repaid to the DWP is £188,216.

Further details will be presented in our certification report which will be presented to the Accounts, Audit and Governance Committee in the March meeting.

Local appointment of auditors

The Department for Communities and Local Government has recently announced that it has decided to extend the existing arrangements for awarding external audit contracts by one year, to the end of 2017/18. From 2018/19 onwards, larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies will be responsible for appointing their own auditors, and directly managing the resulting contract. It is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2015/16 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Accounts, Audit and Governance Committee cycle. We will provide formal reports to the Accounts, Audit and Governance Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
High level planning	**Ongoing**	Audit Fee Letter	January 2016	Completed – Circulated to members in April 2015, Attached to this report
Risk assessment and setting of scope of audit	**December 2015 – January 2016**	Audit Plan	March 2016	Not yet started
Testing of routine processes and controls	**December 2015 – February 2016**	Audit Plan	March 2016	Not yet started
Year-end audit	**June - August 2015**	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	**October 2016**	Annual Audit Letter	November 2016	Not yet started

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
Grant Claims 2015/15	**June 2016 and September – November 2016**	Annual certification report	March 2017	Not yet started

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters through our Sector Briefings. The next briefing is due in December 2015.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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

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Report to Accounts, Audit and Governance Committee
6th January 2016
By the Director of Corporate Resources
DECISION REQUIRED

Not exempt

Treasury Management Strategy 2016/17

Executive Summary

This report is an annual statutory requirement setting the strategy for treasury management and specific Treasury Management indicators for the financial year 2016/17. The strategy is set against the context of the projected interest rates and the Council's capital spend.

The new strategy adds investment options of corporate bonds and funds pooling bonds, equities and property, the latter subject to a £5m overall limit.

Recommendations

The Committee is recommended to recommend that the full Council:

i) approve the Treasury Management Strategy for 2016/17.

ii) approve the Treasury Management Indicators for 2016/17.

Reasons for Recommendations

i) The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

ii) The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

Consultation: Arlingclose Limited
Wards affected: All
Contact: Julian Olszowka ext 5310

Background Information

1 Introduction

The purpose of this report

1.1 The Council has significant investments and borrowing which bring with them financial risks including the loss of invested funds and the revenue effect of changing interest rates. It therefore requires an overall strategy as well as sets of practices and procedures to identify, monitor and control those risks. There is a body of statute and other regulation that lays down what a strategy should do. This report sets out a Treasury Management Strategy for 2016/17 that fulfils legal requirement and provides a workable framework for day-to-day operations.

2 Background

Economic background

2.1 The Council's Treasury Management Strategy must take account of expectation of the general economy. The Council receives advice on this from Arlingclose Ltd and Appendix 2 is a commentary by them on the economic background.

2.2 The forecast for the first rise in Bank Rate is 0.25% in Autumn 2016 with a subsequent 0.25% in early 2017. For the purpose of the budget any new investments are estimated to be on or about the bank rate. New borrowing uses the current Public Works Loan Board (PWLB) 30 year rate of 3.5%.

2.3 The Treasury Management environment remains difficult with yields hit by low interest rates and the aftermath of the financial crisis of 2008. Governments and regulators have put in place measures prompted by the crisis. These have prompted a reappraisal of local authorities' strategies across the sector. This year's strategy reflects a modified approach less reliant on single institutions and their credit rating and more reliant on diversification.

Statutory background

2.4 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government Guidance.

Relevant Government policy

2.5 The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

Relevant Council policy

2.6 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

3 Current and Position and Projection

3.1 The Council's treasury portfolio at 31st November 2015 was:

Type of investment or borrowing	Principal £m	Interest Rate % Average
Call accounts	3.6	0.37
Money market funds	14.9	0.68
Short-term deposits	13.5	0.80
Long-term deposits	4	1.88
Total Investments	**36**	**0.83**
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	**3.38**
Net Investments	**32**	

3.2 Treasury management operations work within the context of the Council's balance sheet. Below is the current projected analysis of the balance sheet to illustrate the trajectory of Council funds. It should be noted that the end of year cash balances are usually the low points in the year. The projection will be revised as the budget is finalised and a revised table will accompany the final Budget Report 2016/17.

All figures at year-end £m	**Actual 14/15**	**Estimate 15/16**	**Estimate 16/17**	**Estimate 17/18**	**Estimate 18/19**
CFR	12.0	11.3	23.8	41.5	40.2
Less external borrowing	4.0	4.0	9.0	18.0	18.0
Internal borrowing	8.0	7.3	14.8	23.5	22.2
Useable reserves, receipts, contributions held	28.0	36.4	38.7	32.5	28.0
Working capital/other balance.	4.8	3.3	2.3	2.3	2.3
Estimated Investments	24.8	32.4	26.2	11.3	8.1

3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. Up to this point the Council's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. However, with an increasing

CFR due to the capital programme some external borrowing is in the projection. The estimates are £5m in 2016/17 and £9m in 2017/18.

3.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2016/17.

4 Borrowing Strategy

4.1 The Council currently holds a £4m long-term Public Works Loan Board (PWLB) loan, as it did in the previous year, as part of its strategy for funding previous years' capital programmes. The Council's capital financing requirement (CFR, or underlying need to borrow for capital purposes) as at 31st March 2016 is expected to be £11m, and is forecast to rise to £24m by March 2017 as capital expenditure is incurred.

4.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. With short-term interest rates lower than long-term borrowing rates, the Council has felt it was more cost effective in the short-term to use internal resources. Effectively the Council has borrowed from its own internal funds; sometimes termed internal borrowing.

4.3 The Council has so far only borrowed externally following its first unfinanced project of Steyning Health Centre. However, the underlying need to borrow has been increasing as the number of projects requiring funding are increasing in number and size. On balance the projections suggest the need for external borrowing in the next two financial years. Members will recall that borrowing was discussed in the reports on the Saxon Weald loan, the Property Investment fund and the Broadbridge Heath leisure centre.

4.4 Actual decisions to borrow will only follow a detailed analysis of the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years. The Councils' advisor Arlingclose will assist the Council with the decision as the borrowing strategy.

4.5 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except West Sussex County Council Pension Fund)
- capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues.

4.6 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

4.8 The Municipal Bond Agency Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a report to this Committee.

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

4.10 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.11 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

5 Investment Strategy

5.1 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £22.2m and £46.0m, and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate.

5.2 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 The Council defines several categories of financial institutions as being of "high credit quality" (as per the CLG Guidance), subject to the monetary and time limits. These are listed below.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporate	Registered Providers
AAA	£2.5m 5 years	£4m 20 years	£4m 50 years	£2.5m 10 years	£4m 20 years
AA+	£2.5m 5 years	£4m 10 years	£4m 25 years	£2.5m 7 years	£4m 10 years
AA	£2.5m 4 years	£4m 5 years	£4m 15 years	£2.5m 5 years	£4m 10 years
AA-	£2.5m 3 years	£4m 4 years	£4m 10 years	£2.5m 4 years	£4m 10 years
A+	£2.5m 2 years	£4m 3 years	£4m 5 years	£2.5m 3 years	£4m 5 years
A	£2.5m 13 mons	£4m 2 years	£4m 5 years	£2.5m 2 years	£4m 5 years
A-	£2.5m 6 mons	£4m 13 months	£4m 5 years	£2.5m 1 year	£4m 5 years
BBB+	£2.5m 100 days	£2.5m 6 months	£4m 2 years	£1m 6 months	£2.5m 2 years
BBB	£2.5m next day only	£2.5m 100 days	£2.5m 1 year	n/a	n/a
None	£1m 6 months	n/a	n/a	£50,000 5 years	£2m 1 year
UK Govt	Central government £unlimited 50 years UK Local Authority £4m 10 years				
Pooled funds	£5m per fund				

This table must be read in conjunction with the notes below

5.4 **Credit Rating**: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.5 **Banks Unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB will be restricted to overnight deposits at the Council's current account bank NatWest plc which is currently rated at BBB+.

5.6 **Building Societies:** Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from the building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. A minimum asset size of £250m is used to avoid investment with very small societies.

5.7 **Banks Secured**: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.8 **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and UK local government up to £4m for up to 10 years.

5.9 **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will be very limited in value and only be made as part of a diversified pool of smaller loans to smaller well understood organisations (e.g. West Sussex Credit Union) in order to spread the risk widely. This is an addition to previous years but is a logical extension of counterparties as corporate bodies are not subject to the bail in that affects unsecured bank deposits, and corporate bodies tend to fail slowly rather than overnight, as a bank bail-in might occur, giving time to divest any investment.

5.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed.

5.11 **Pooled Funds - Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

5.12 Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes (termed variable net asset value) with market prices and/or have a notice period will be used for longer investment periods.

5.13 **Pooled Funds – other than Money Market Funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares, corporate bonds and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

5.14 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. Capital values are "marked to market" and so are volatile although the volatility will not affect the revenue account until the investment is sold.

5.15 The use of this class of Pooled funds is a new investment instrument for the Council and by their nature has a significant volatility in their capital values and so must be seen as a longer term investment. However, these funds are an important option in treasury management. Recognising that these are a new investment type for the Council, the amount in this class of pooled fund will be limited at £5m in total.

5.16 The categories for investment have been reviewed in consultation with Arlingclose in response to the post financial crisis environment. The emphasis has shifted from unsecured bank investments to other sectors and diversified investments. Where banks are used the strategy makes a distinction between secured investments where a bank failure would be covered to a large extent.

5.17 **Long Term investments**: Projections of the longer term cash flows of the Council indicate there could be a significant flow of developer payments in the next few years that will increase cash balances as they pass through the Council's accounts into relevant schemes. The cash receipt for the Council's former offices will also increase long term balances and although large outgoings are planned, it is still felt judicious to maintain the limit on the total long term investments (over a year) at £8m.

5.18 **Risk Assessment and Credit Ratings**: Credit ratings are monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.19 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no investments other than call investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.20 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.

5.21 When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified and Non-specified Investments

5.22 The CLG Guidance, that the Council must follow, uses the terms "specified" and "non-specified" investments. The guidance defines specified investments as those:

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

5.23 The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.24 Any investment not meeting the definition of a specified investment is classed as "non-specified". The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

5.25 "Non-specified" investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition on "high credit quality". The limits on "non-specified" investments are shown below.

Non-Specified Investment Limits	Cash limit
Total long-term investments	£8m
Total investments without credit ratings or rated below A- (includes Pooled Funds unrated £5m; building societies £8m; own bank £2.5m; other possible unforeseen e.g. secured bank rated BBB+ £2.5m)	£18m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m
Total "Non-specified"	£36m

Investment limits

5.26 In order that to reduce risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
All of pooled funds other than Money Market Funds	£5m in total
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£10m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£8m in total
Money Market Funds	£30m in total

Cash flow management

5.27 The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial plan.

6 Treasury Management Indicators

Security benchmark: average credit rating

6.1 The Council has adopted a security benchmark based on weighted average historic default rates. The benchmark for 2016/17 will be an average credit rating of A-. Unrated investments will be assigned an equivalent rating, while pooled funds under external management will be excluded from the measure. Unrated investments are assigned a score based on their perceived risk.

Liquidity benchmark

6.2 The liquidity benchmark for 2016/17 is an amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2016/17 the benchmark amount available will be £3m.

Yield benchmark

6.3 The yield benchmark will remain at the 7 day London Interbank bid rate.

Interest rate exposures

6.4 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed are shown below. Fixed rate investments and borrowings are defined here as those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. Investments count as negative borrowing.

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposures	£15m	£15m	£15m
Upper limit on variable interest rate exposures	£0m	£0m	£0m

Maturity structure of borrowing

6.5 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown below. The Council only has one such debt at present and may have another so will set limits to allow the flexibility to change the terms and maturity date as it sees fit.

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than 364 days

6.6 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on investment over a year	£8m	£8m	£6m

7 **Other Treasury Management issues**

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

Policy on Use of Financial Derivatives

7.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they clearly reduce the overall level of risk. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Treasury management advisors

7.5 The Council's treasury management advisor is Arlingclose Limited. Arlingclose provide advice and information on the Council's investment, borrowing and capital financing activities. However, responsibility for final decision making remains with the Council and its officers. The quality of service will be monitored and officers will meet with a representative of the advisers twice a year. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions and relevant analysis,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,

- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

Staff training

7.6 The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and other expert bodies. Staff are also encouraged to study relevant professional qualifications.

Investment of money borrowed in advance of need

7.7 The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

7.8 The total borrowed will not exceed the authorised borrowing limit which is £15m. The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link loans with items of expenditure.

8 Other Courses of Action Considered but Rejected

8.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. Having consulted the Cabinet Member for Finance and Assets, the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain

9 Staffing Consequences

9.1 There are no staffing consequences apart from the need for appropriate training.

10 Financial Consequences

10 .1 The budget for investment income in 2016/17 is £0.27m, which equates to an average investment portfolio of £32.5m at an interest rate of 0.8%. The budget for debt interest paid in 2016/17 is £0.17m, based on additional borrowing £5m in early 2017 adding to the present debt of £4m.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal?	Risks such as security of funds, liquidity, interest rate risk are considered in the report.
How will the proposal help to reduce Crime and Disorder?	There are no crime and disorder implications as a result of this report.
How will the proposal help to promote Human Rights?	This report does not infringe human rights or promote convention rights
What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant	There are no equality and diversity implications as a result of this report.
How will the proposal help to promote Sustainability?	There are no sustainability implications as a result of this report.

Appendix 2 Economic Background and Interest Rate Forecast

Economic background

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve finally raised rates at its meetings in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook:

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit rating positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

Interest rate forecast

The Council's treasury management advisor Arlingclose forecasts the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields. The detail rate forecasts are below.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Report to Accounts, Audit and Governance Committee
6th January 2016
By the Director of Corporate Resources
INFORMATION REPORT

Not exempt

Treasury Management and Prudential Indicators mid-year report 2015/16

Executive Summary

This report covers treasury activity and prudential indicators for the first half of 2015/16. During the period the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 30th September 2015, the Council's external debt was £4m (£4m at 31st March 2015) and its investments totalled £35.4m (£24.7m at 31st March 2015) including call accounts and money market funds.

During the first half of 2015/16, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.13m was earned on investments, an average return of 0.7% (0.5% full year 2014/15).

Recommendations

The Committee is recommended to:

i) Note the treasury management stewardship report at the mid-year 2015/16
ii) Note the mid-year prudential indicators for 2015/16

Reasons for Recommendations

i) This mid-year report is a requirement of the Council's reporting procedures
ii) This report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

Background Papers
"Treasury Management Strategy 2015-16" – A.A.G Committee 7th January 2015
"Budget 2015/16 and Medium Term Financial Strategy" – Council 25th February 2015

Consultation: Arlingclose. Council's Treasury management advisors

Wards affected: All **Contact:** Julian Olszowka Ext. 5310

Agenda Item 9

Background Information

1 Introduction

The purpose of this report

1.1 This report covers treasury management activity and prudential indicators for the first half of 2015/16. It meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. The Code recommends that members are informed of Treasury Management activities at least twice a year.

Background

1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to show that capital spending is prudent, affordable and sustainable and that treasury practices adequately manage risk. The original indicators for 2015/16 together with Treasury Management Strategy 2015/16 were approved by Council on 25th February 2015. The Treasury Management Strategy 2015/16 had been recommended for approval by this Committee on 7th January 2015.

1.3 The economic background to treasury management remains challenging with the economy and financial system still recovering from the 2008 financial crisis. Interest rates remain at historic lows and positive news on UK growth is balanced by fears for the global economy. Arlingclose, the Council's treasury management advisors have provided a commentary on the year so far in Appendix 1.

1.4 At the end of 2014/15 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £12.0m, while usable reserves and working capital which are the underlying resources available for investment were £32.8m. The Council had £4m of borrowing and £24.7m of investment reflecting its use of internal resources of funds rather than borrowing.

2 Treasury management

Borrowing strategy

2.1 On 30th September 2015, at the midpoint of the year, the Council's borrowing remained the single £4m PWLB loan at 3.38% as has been the case for a number of years. The Authority does not expect to borrow in 2015/16.

Investment Activity

2.2 Treasury Management position at 30 September 2015 was:

	Principal £m	Average Interest Rate %
Call accounts	4.4	0.4
Money market funds	16.5	0.6
Long-term deposits	4	1.9
Short-term deposits	10.5	0.8
Total Investments	**35.4**	**0.8**
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	**3.38**
Net Investments	**31.4**	

2.3 Investment income was £0.13m which matched the budget. The average return was 0.7% against a budget of 1% and the adopted yield benchmark 7 day LIBID of 0.43%. Cash balances ranged from £24.7m to £45.3m averaging £34m against a budgeted average balance of £28m. Short term rates remain low but it is anticipated the budgeted interest income of £0.25m will be met.

2.4 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2015/16. Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

2.5 **Security benchmark** – The Council set a security benchmark rating of A-, which is the average credit rating for the investment portfolio. The average rating was A or A+ during the first half of the year.

2.6 **Liquidity benchmark** – The Council sets benchmark to maintain a minimum of liquidity. The bench maker set was that £3m is available within a rolling three month period without additional borrowing. The Director of Corporate Resources can report that liquidity arrangements were within benchmark during the year to date.

2.7 **Counterparty Update -** Arlingclose, the Council's treasury management advisors, monitor the quality of potential counterparties and have provided a commentary on the developments in the first part of the year in Appendix 2.

Compliance with Prudential Indicators

2.8 The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set out in January 2015 as part of the Council's Treasury Management Strategy.

Treasury Management Indicators

2.9 **Interest rate exposures -** This indicator is set to control the Council's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed, were as the table below. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. As investments count as negative borrowing the variable rate figure was negative during the period.

	Limit	Actual	Met?
Upper limit on fixed rate exposures	£15m	£4m	ü
Upper limit on variable rate exposures	£0m	£-24m	ü

2.10 **Maturity Structures Of Borrowing** – These gross limits are set in order to reduce the Council's exposure to large fixed rate loans - those instruments which carry a fixed interest rate for the duration of the instrument - falling due for refinancing. As the Council only has one such debt it has freedom to refinance the debt. The table below shows the estimates and current position.

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	100%	0	0	ü
12 months and within 24 months	100%	0	0	ü
24 months and within five years	100%	0	100%	ü
Five years and within 10 years	100%	0	0	ü
10 years and above	100%	0	0	ü

2.11 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. The total principal sums invested to final maturities beyond the period end were:

	Original Indicator	Maximum Position
Maximum principal sums invested > 364 days	£8m	£4m

3 Prudential Indicators 2015/16

3.1 The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. To demonstrate that the Council meets these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

3.2 **The Council's Capital Expenditure and Financing 2015/16 -** This is one of the required prudential indicators and shows total capital expenditure for the year and how this is financed. The estimated indicator is shown below.

2015/16	Original Estimate £000	Current projection £000
Total capital expenditure	14,458	7,059
Resourced by:		
Capital receipts and contributions	(5,422)	(6,472)
Capital grants	(442)	(442)
Revenue reserves		(72)
Unfinanced capital expenditure (additional need to borrow)	8,594	73

3.3 The capital spend in 2015/16 has been well under the budget with major schemes being re-phased into 2016/17. The final financing at the year-end will be well within the prudential indicator estimates. A projection is shown above.

3.4 **The Council's Overall Borrowing Need -** The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.5 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2015/16 MRP Policy (as required by CLG Guidance) was approved on 25th February 2015 as a part of the 2015/16 Budget report.

3.6 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. There is a decrease in the expected CFR as unfinanced capital spend has been re-phased into 2016/17 and is below estimate. No increase in borrowing is now projected this financial year so external debt remains as in the original estimate.

Capital Financing Requirement and External Debt Year end 2015/16	Original estimate £000	Current projection £000
CFR	19,812	11,273
External debt	4,000	4,000

3.7 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 2015/16 and next two financial years. The Director of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this Prudential Indicator.

3.8 **Borrowing limits** - The Council approved these Prudential Indicators as part of the Capital Programme report.

3.9 **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

3.10 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	Limit	Actual	Met?
Operational boundary – borrowing	£4m	£4m	ü
Operational boundary – other long-term liabilities	£0m	£0m	ü
Operational boundary – TOTAL	£4m	£4m	ü
Authorised limit – borrowing	£14m	£4m	ü
Authorised limit – other long-term liabilities	£1m	£0m	ü
Authorised limit – TOTAL	£15m	£4m	ü

3.11 **The ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The indicator for the year was 5% and the current estimate is also 5%.

4 Outcome of Consultations

4.1 Arlingclose, the Council Treasury management advisors, have made comments which have been incorporated into the report.

5 Staffing Consequences

5.1 There are no direct staff resourcing consequences, however, the risks in the investment environment highlights the continuing need for staff training and staff will take advantage of courses run by its advisors Arlingclose.

6 Financial Consequences

6.1 Interest earned is expected to be on budget so there is no effect on the current year's financial performance.

Appendix 1

Economic Background to the midpoint of 2015/16

World Economy: As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centred on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

US economic growth slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, the growth data is clearly supportive. However other factors such as a lack of inflation argue against a rise. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

UK Economy: The UK economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. The retail price inflation (RPI) rate hovered around 1%.

In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

Appendix 2

Counterparty Update

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

National Australia Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB is looking to list Clydesdale on the London Stock Exchange and transfer ownership to NAB's current shareholders. Fitch placed the long- and short-term ratings of the bank on rating watch negative which the agency is expected to resolve once the transaction has been completed. S&P has also placed the long-term rating of Clydesdale Bank on CreditWatch negative following the announcement.

At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

Report to Accounts, Audit and Governance Committee
6th January 2016
By the Director of Corporate Resources

INFORMATION REPORT

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

i) Note the contents of this report

Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

Background Papers

Management Information obtained from Covalent

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see 3.1 and 3.2 below).

1.3 Section 3.3 below provides details of improvements to the Council's risk management arrangements.

2 Relevant Council policy

2.1 Risk management is an important part of the Council's Governance framework and supports the Council's District Plan priorities and corporate objectives.

3 Details

3.1 Corporate Risk Register

The Senior Leadership Team (SLT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 2). It has been agreed by SLT that the following risks will be removed from the register as they are now considered to be low risk:

CRR04	Five Year Land Supply
CRR10	Council Generally Risk Averse
CRR11	Skill Shortages
CRR15	Lone Workers

3.2 Departmental Risk Registers

All 20 departmental risk registers have been reviewed and updated.

3.3 Improvements to the Risk Management Process

The Council's Risk Management Strategy was due to be updated during 2015, and a new strategy for 2015 to 2019 has now been written to replace this. This was approved by the Senior Leadership Team on the 7th December. In addition, the risk management procedures have been replaced by a risk management toolkit which provides up-to-date guidance and essential tools to assist managers in the effective management of risks.

4 Outcome of Consultations

4.1 Not applicable.

5 Other Courses of Action Considered but Rejected

5.1 Not applicable.

6 Financial Consequences

6.1 There are no financial consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Staffing Consequences

8.1 There are no staffing consequences.

9 Risk Assessment

9.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 2 for the latest version of the Council's Corporate Risk Register.

Appendix 1

Consequences of the Proposed Action

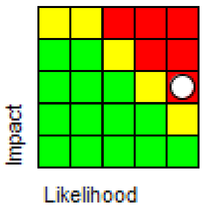
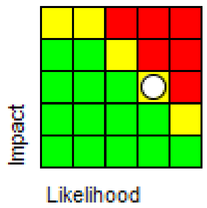
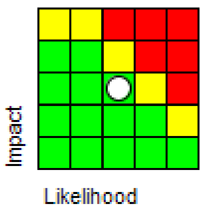
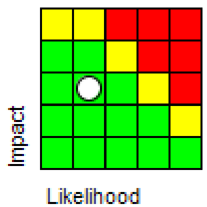
How will the proposal help to reduce Crime and Disorder?	Section 17 of the Crime and Disorder Act 1998 requires the Council to do all that it reasonably can to reduce crime and disorder. There are no crime and disorder implications as a result of this report.
How will the proposal help to promote Human Rights?	Effective risk management helps to ensure that the Council achieves its objectives within this area.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

Appendix 2

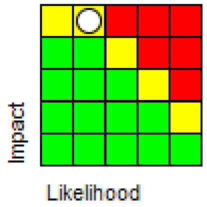
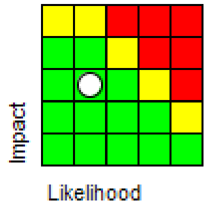
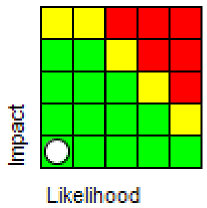
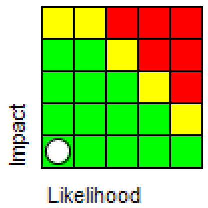
Copy of Corporate Risk Report December 2015 V2

Generated on: 15 December 2015

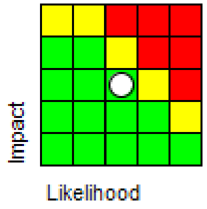
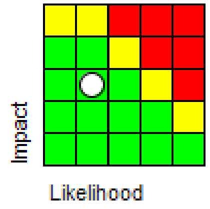
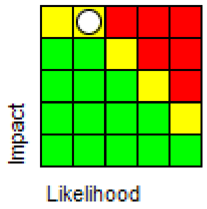
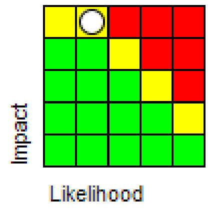
Status Icons: = *Completed* = *Assigned & in progress* = *Overdue*

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 Financial Source: The Council is reliant on Central Government funding (eg. New Homes Bonus). Event: Grant funding from Government is less generous than assumed in the MTFSP.	. Reductions in funding . Adverse effect on morale . Financial losses . Failure to achieve agreed objectives	Katharine Eberhart		CRR.01.1 Review current budgets in preparation for the 2015/16 budget	Katharine Eberhart			December 2015 Update: Budget prepared for 2016/17. Following the recent outcome of the Government Spending Review, a new action has been added to develop a Medium Term Plan. The current level of risk has moved from “Medium” to “High”.
				CRR.01.2 Develop options to deal with pressure for consideration by Members	Katharine Eberhart			
				CRR.01.3 Develop a Medium Term Plan	Katharine Eberhart			
CRR02 Managerial / Professional Source: The Council has a legal obligation to protect personal data. The Information Commissioner has the power to levy significant financial penalties up to £500k for data breaches. Some information held by the Council is politically / commercially sensitive, and it is important that such information is not leaked. Event: Major data breach or leak of sensitive information to a 3rd party.	. People and businesses come to harm and suffer loss that might not otherwise have occurred . Complaints / claims / litigation . Resources consumed in defending claims . Financial losses . Censure by regulators . Adverse publicity . Reputation damage	Katharine Eberhart		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Katharine Eberhart			December 2015 Update: Ongoing information security training will be provided.
				CRR.02.2 Provide a programme of training on Information Security to all staff.	Katharine Eberhart			
				CRR.02.3 Annual PSN Accreditation	Katharine Eberhart			

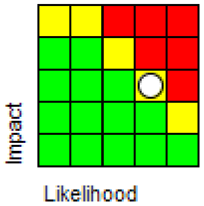
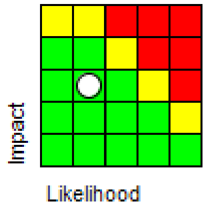
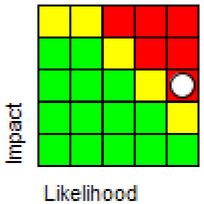
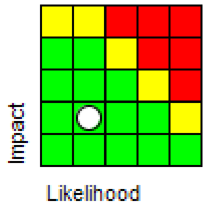
Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR03 Legal Source: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. Event: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.	. People and businesses come to harm and suffer loss that might not otherwise have occurred . Complaints / claims / litigation . Resources consumed in defending claims . Financial losses . Censure by regulators . Reputation damaged	Natalie Brahma-Pearl		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle			December 2015 Update: CRR.03.1: Plan has been reviewed in line with lessons identified from training exercise in October. This document will be reviewed annually. All results from departmental BCP's have been populated in the BIA Report for 2015 – this will be provided to ICT to inform their disaster recovery procedures. CRR.03.2: Majority of plans have been completed and managers are required to review annually. Next review Summer 2016. CRR.03.3: Reciprocity amongst Local Authorities for business continuity solutions has been explored. As advised by ICT this solution is not possible and should be removed.
				CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle			
				CRR.03.3 Explore feasibility of reciprocal arrangements with other authorities (by 31/03/14)	Trevor Beadle			
CRR04 Political Source: There is currently a shortfall in the Five Year Land Supply. In the absence of an approved Planning Framework, planning application appeals may be lost. Event: Developers are successful in appealing declined planning applications.	. Failure of business objectives . Financial business loss . Damage to reputation	Chris Lyons		CRR.04.1 Identify five year land supply via the Planning Development Framework (by 30/04/15)	Barbara Childs			December 2015 Update: The Horsham District Planning Framework was adopted on 27/11/15. The Council is now able to demonstrate a 5 Year Housing Land Supply. Housing delivery will continue to be monitored. The risk has been mitigated and will be removed from the Corporate Register.
				CRR.04.2 Continue to raise awareness with Members (Ongoing)	Barbara Childs			
				CRR.04.3 Member training (Ongoing)	Barbara Childs			

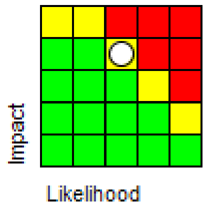
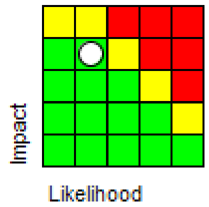
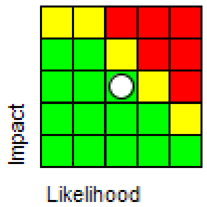
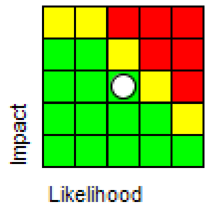
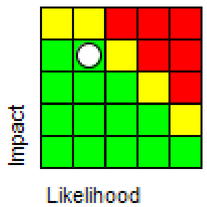
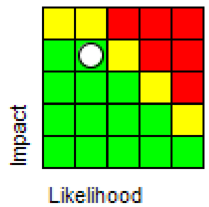
Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR05 Governance <u>Source</u>: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. <u>Event</u>: Officers are either unaware of expected controls or do not comply with control procedures.	. Failure of business objectives . Health & Safety . Financial . Service Delivery . Compliance with Regulations . Personal Privacy Infringement . Reputation damage	Katharine Eberhart		CRR.05.1 Officer training	Katharine Eberhart			<u>December 2015 Update</u>: No change. Risk is considered to be low, but remains on the risk register for monitoring purposes.
				CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process).	Katharine Eberhart			
				CRR.05.3 All Service Managers required to sign an Internal Control Statement. (By 30th June Annually)).	Katharine Eberhart			
CRR06 Physical <u>Source</u>: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. <u>Event</u>: A health & safety failure occurs.	. People come to harm . Complaints/claims/ litigation . Financial losses . Censure by audit / inspection . Reputation damage . Adverse effect on morale . Stress and absenteeism	Katharine Eberhart		CRR.06.1 Set up a Health & Safety Forum with clear terms of reference (by 30/11/15).	Robert Laban			<u>December 2015 Update</u>: 06.1 - Implementation of the health and safety management framework has commenced with the first H&S specific SLT meeting having been held in November and the first of the Directorate H&S Working Group meetings planned for mid-December. 06.2 - The Corporate H&S Adviser is continuing a programme of inspections; there are plans to introduce a Premises Coordinator workplace inspection / audit programme but this depends on the nomination of premises coordinators. 06.3 - H&S responsibilities are set out, generically, in the newly revised Corporate H&S Policy; more specific responsibilities will be set
				CRR.06.2 Develop and implement a corporate inspection strategy (By 30/11/15).	Robert Laban / Health & Safety Officer			
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban			
				CRR.06.4 Implement a central repository for risk assessments (by 30/06/16).	Robert Laban / Health & Safety Officer			

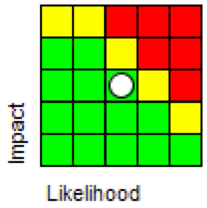
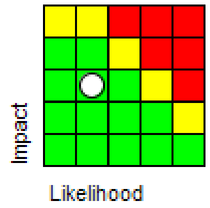
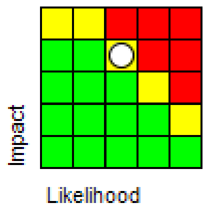
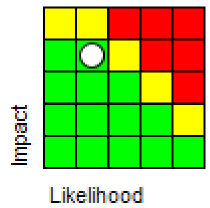
Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								out as each existing H&S subject policy is reviewed and as an additional suite of H&S subject policies is introduced. 06.4 – Action is outstanding. The Corporate Health & Safety Adviser is seeking an electronic solution.
CRR07 Managerial / Professional <u>Source</u>: There is a lack of corporate consistency in terms of the way in which contracts are managed, and contract management is inadequate in some areas. <u>Event</u>: Failure of contract / poor service delivery / failure to achieve value for money.	. Failure of business objectives . Financial . Service delivery . Compliance with regulations . Personal Privacy Infringement . Reputation damage	Katharine Eberhart		CRR.07.1 Specific contract management guidelines will be developed. (By 31/01/16). CRR.07.2 A contract management training programme will be designed and implemented. (By 31/01/16).	Mark Pritchard Mark Pritchard			<u>December 2015 Update</u>: Contract Management training programme is in development including a revision of the Procurement Toolkit and inclusive of modules on Contract Management. Sessions shall be delivered in January 2016 subject to the adoption of the revised Procurement Code at Full Council on 9/12/15.
CRR08 Governance <u>Source</u>: The Councils decision-making processes are based on a Constitution that is overly bureaucratic and unnecessarily complicated <u>Event</u>: Non-compliance with the Constitution and delays in decision-making	. Opportunities lost . Complaints / claims / litigation . Financial losses . Lack of openness and transparency	Paul Cummins		CRR.08.1 The Council’s Constitution will be updated using the 2011 template. (By March 2016).	Paul Cummins			<u>December 2015 Update</u>: Members are currently undertaking a review of the Council’s Governance arrangements and therefore implementation of an updated Constitution will coincide with the conclusion of the Governance Review in the first quarter of 2016.

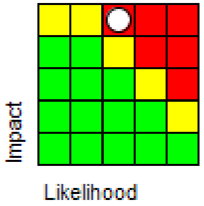
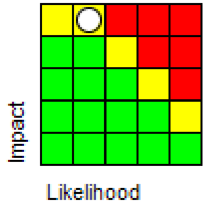
Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR09 Governance Source: The Council's decision-making relies upon the taking of professional advice from officers or external consultants Event: Advice is not taken.	. Poor/ultra vires decisions . Complaints/claims/ litigation . Financial losses . Reputation damage	Tom Crowley		CRR.09.1 Member training (ongoing)	Paul Cummins			December 2015 Update: Member training in ethical governance, media/ communications and equality/diversity have been arranged for early 2016. Regular briefings on planning matters are ongoing. Manager training takes place in briefings at Managers Forum and Managers Conference.
				CRR.09.2 Officer training (ongoing)	Paul Cummins			
				CRR.09.3 Member briefings to improve communications	Paul Cummins			
CRR10 Managerial / Professional / Political Source: The Council is generally risk averse. Event: Ideas and proposals aren't progressed because of risk aversion.	. Missed opportunities . Poor decisions	Tom Crowley		CRR.10.1 Workshops with senior managers.	Katharine Eberhart			December 2015 Update: This is no longer considered to be an area of risk and will therefore be removed from the risk register.
				CRR.10.2 Risk matrix amended	SLT			
				CRR.10.3 Training for Members (ongoing)	SLT			
				CRR.10.4 Council report template to be enhanced	Paul Cummins			
CRR11 Managerial / Professional Source: The Council faces skills shortages in several disciplines and areas, has an over-reliance on interim and agency staff, has immature workforce strategy and succession planning, and operates in a competitive market in an affluent and expensive area. Event: Failure to recruit and retain good staff.	. Failure to reduce reliance on interims/agency staff . Stress and absenteeism . Adverse effect on morale . Increased costs/ financial losses . Failure to improve . Failure to achieve agreed objectives . Failure to deliver statutory services	Tom Crowley		CRR.11.1 Strategic outsourcing or commissioning. (Ongoing)	SLT			December 2015 Update: This is no longer considered to be an area of risk, and will therefore be removed from the risk register.
				CRR.11.2 Undertake a skills audit and develop strategy to grow own people. (Systems to be put in place by 31/3/16).	Robert Laban			
				CRR.11.3 Employ apprentices / trainees. (Systems to be put in place by 31/3/16).	Robert Laban			

Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR12 Partnership / Supplier / Contractual Source: The Council is subject to EU procurement rules and regulations, is putting more services out to tender, and contractors are increasingly challenging contract awards. Event: A contractor successfully challenges an award (eg on inflexible price:quality ratios).	. Financial losses . Censure by audit / inspection . Reputation damage . Adverse effect on morale	Katharine Eberhart		CRR.12.1 Staff training	Mark Pritchard / Roger Dennis			December 2015 Update: Training has been completed on the EU Directives. The EU Directives are being incorporated into the Procurement Code which is currently in final draft format and is going for approval with the full council on 9/12/15. Further training for officers on the revised Procurement Code will take place once the new Code has been adopted.
				CRR.12.2 Up-to-date procedures	Mark Pritchard / Roger Dennis			
				CRR.12.3 Reference to Procurement Team for advice	Mark Pritchard / Roger Dennis			
				CRR.12.4 Proactive monitoring by the Procurement Team	Mark Pritchard / Roger Dennis			
CRR13 Governance Source: Decisions are not always based on data. Event: Wrong decision made.	. Missed opportunities . Poor decisions . Poor VFM . Increased costs / financial losses	Tom Crowley		CRR.13.1 Robust evaluation of business cases to inform decisions (ongoing)	SLT			December 2015 Update: The Senior Leadership Team will continue to review the quality of business cases.
				CRR.13.2 Ensure that decisions are properly documented (Ongoing)	SLT			

Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR14 Customer/Citizen <u>Source</u>: The negotiation of Section 106 and CIL (Community Infrastructure Levy) are essential for ensuring outcomes for residents. <u>Event</u>: Failure to negotiate the optimum outcome.	Reduced funding to deliver outcomes for the community	Chris Lyons		CRR.14.1 Ensure that leisure priorities are understood within the CIL schedule process and keep under review.	Trevor Beadle			<u>December 2015 Update</u>: Leisure officers informed the latest District Infrastructure Development Plan (IDP) in September 2015. This is being updated as part of the ongoing CIL preparation work, including contact with all parishes to include their infrastructure requirements. Leisure officers will also input into the updated IDP. See also Footnote[1]:
				CRR.14.2 Identify the impact of funding erosion with competing partners e.g. WSCC.	Barbara Childs			
				CRR.14.3 Update the Planning Obligations SPD (Supplementary Planning Document) and CIL charging schedule.	Barbara Childs			

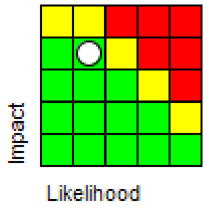
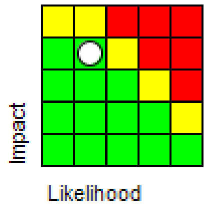
[1] The Draft CIL Charging Schedule will be reported to Council on 24 February 2016 for agreement for consultation in March-April. It will then be subject to examination and is anticipated to be adopted in October 2016.

Member briefings will take place on 10th December 2015 and 27th January 2016.

The new CIL Monitoring officer post has been advertised and recruitment is well progressed. Training for Leisure Officers regarding how CIL will work is being planned for early in the New Year.

In the meantime, referral to leisure officers regarding local priorities is occurring but not in every case. Leisure officers are unable to comment on draft s106 agreements at the same time as planning applications are submitted (as requested by Emma Parkes) as the draft S106’s do not always exist at this stage.

Appendix 2

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR15 Physical <u>Source</u>: Officers working alone may encounter difficulties, and it is important that appropriate procedures are in place to detect problems at the earliest opportunity. <u>Event</u>: Line manager is unaware that an officer has been physically harmed.	. People come to harm . Stress/absenteeism	Katharine Eberhart		CRR.15.1 Review Corporate Policy.	Robert Laban			<u>December 2015 Update</u>: This risk should be removed from the Corporate Risk Register, but should be retained on the HR & OD risk register.
				CRR.15.2 Review systems put into place by other organisations (for example, MSDC & the private sector).	Robert Laban			
				CRR.15.4 Ensure that services / teams have appropriate lone working arrangements in place.	Robert Laban			

Report to Accounts, Audit & Governance Committee
6th January 2016
By the Chief Internal Auditor

INFORMATION REPORT

Not Exempt

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since September 2015.

Recommendations

The Committee is recommended to:

i) Note the summary of audit and project work undertaken since September 2015.

Reasons for Recommendations

i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013.

ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers

Internal Audit Reports and Correspondence

Wards affected: All.

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since September 2015.

1.2 The Accounts and Audit (England) Regulations 2011 state that "a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." This responsibility is discharged through the Council's Internal Audit Section.

2 Relevant Policy / Professional Standards

2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

3 Summary of Audit Findings

3.1 Security

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

The scope of the audit included a review of a number of Council-owned buildings including the Capitol Theatre, Horsham Museum, and the Drill Hall. The Parkside building was excluded from the scope. A number of control weaknesses were identified, and in particular, it was identified that there is a need to assign security responsibilities across the Council's buildings portfolio. In addition, there is a need to define and document the Council's security policy and procedures to help ensure consistency of approach. Actions have also been agreed to ensure that keys to buildings are properly recorded, and CCTV coverage at various Council sites will be reviewed to ensure that cameras are fit for purpose.

3.2 Vehicle Management and Maintenance

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE ( )[1]

Controls over the management and maintenance of the Council's vehicle fleet are generally working effectively. Fleet records and vehicle maintenance scheduling and recording are well maintained. Health and safety checks are undertaken regularly. However, procurement arrangements need to be reviewed and improved to ensure the Council's Contract Standing Orders are adhered to. The Business Continuity Plan for the service should be finalised and staff informed of the key actions and responsibilities in the event of an emergency.

3.3 Elections

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE ( )

The auditor was satisfied that a sound system of control is in place for elections, including compliance with legislation, the completion of election documentation and general management processes. The main area of concern is that controls and processes at the end of the election for the control, delivery and storage of official election documents were found to be weak which could place the Council at risk in the event of a legal challenge. New recording and reconciliation procedures have been agreed to mitigate the risk.

3.4 Backup and Recovery

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE ( )

Internal Audit reviewed the processes in place for the back-up and recovery of the Council's Virtual Servers and has found improved resilience of back-up and recovery compared with the previous audit.

3.5 Car Parks

OVERALL AUDIT OPINION: LIMITED ASSURANCE ( )

Whilst the overall opinion is "limited assurance", there were some positive outcomes. In particular, the reconciliation process for the Swan Walk, Forum and Piries Place car parks following the installation of new machines is working well.

However, a number of control weaknesses were identified which are summarised as follows:

- The auditor identified that important information in relation to cash carrier company representatives was not held in the car parks office. There was no list of G4S collectors, nor photographs or specimen signatures. It is important that cash carrier company representatives are properly identified to confirm that they

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[1] *The symbols in brackets indicate the movement in the level of assurance when the area was last audited.*
( ) = Improved. *( ) = No change.* *( ) = Reduced.* *If blank ~ No previous opinion*

are currently employed by the cash collection company. This has now been corrected following the transfer to a new Cash Collection Company, Jade Security.

- A review of officers who have access to the safe in the main office at Swan Walk car park was undertaken as part of the audit. It has been agreed that access will be restricted as far as possible whilst ensuring minimal impact on the car parks operation.

- The old pay and display machines are very unreliable and are continually breaking down. The auditor was therefore unable to provide assurance that all monies received have been banked. The only solution to remedy the control weakness is to invest in new machines. A business case has been written to replace the Hurst Road and Denne Road car park pay and display machines with ANPR (Automatic Number Plate Recognition) machines. A further business case will be written to replace the remaining pay and display machines.

3.6 Trade Waste

OVERALL AUDIT OPINION: LIMITED ASSURANCE

A number of weaknesses in the system of internal control relating to Trade Waste collections have been identified:

- The Environmental Protection Act 1990 requires that all trade waste customers provide Controlled Waste Transfer Notes (CWTNs), giving a description of the waste they place in their bins. If the Council collects customer waste and required notices have not been received, it will be in breach of the legislation and may be liable to prosecution and financial penalties. At the time of the audit, some customers had not returned their CWTN's as required by the legislation. It has been agreed that follow up letters will be sent to these customers and collections will be terminated if no response is received.

- The auditor identified that there are no clearly set out service standards for Trade Waste collections. In particular, details of missed collections and contaminated loads are not logged and monitored. As a result it is difficult to analyse trends and identify recurring issues. It has been agreed that standards will be set and collection crews will be given formalised guidance and training. Monitoring of missed collections and contaminated loads will be undertaken and reporting will take place monthly.

- The wording of the standard customer Trade Waste contract has not been reviewed for many years and is in need of updating to reflect current legislation. Furthermore, from a test of a sample of customer accounts, 2 out of 20 contracts could not be found. The contract wording will now be revised and all customers will be asked to sign and return an amended version of the contract.

- A number of further weaknesses were identified including over-reliance on manual processes, and a need to improve round list information. Appropriate remedial actions have been agreed.

4. Audit Plan ~ Progress Update

4.1 The audit plan remains on track, and it is anticipated that all assignments will be completed in the current financial year with the exception of contracts and customer service / complaints. These will be incorporated into the audit plan for 2016/17. The audit of contracts has been delayed to allow new procedures to “bed in” following recent changes in EU Legislation.

Audit reviews of Back-up and Recovery and Declarations of Interest have been added to the audit plan for 2015/16. These were carried forward from the previous year.

5. Other Work

5.1 The audit team has completed a number of important documents during the last three months to improve the Council’s governance framework. In particular, the Council’s ‘Anti-Fraud and Corruption Policy’ and ‘Whistleblowing Policy’ have been reviewed and updated to reflect current legislation. A Money Laundering Policy has also been written. All three documents have been approved by the Senior Leadership Team, and all service managers have been made aware of the documents.

5.2 The Council’s Risk Management Strategy has been revised, and a risk management toolkit has been developed for managers providing a central repository of information.

5.3 Following the recent transfer of the CenSus Benefits Fraud Investigation Officers to the Department of Work and Pensions, the Chief Internal Auditor has taken over responsibility for the National Fraud Initiative (NFI) data matching exercise, and is now the nominated ‘key contact’ person. Fair Processing Notices have been updated, and Council Tax and Electoral Registration data have been submitted to the Cabinet Office using a secure upload facility. The results will be analysed by the CenSus Revenues Team.

6 Next Steps

6.1 Not applicable.

7 Outcome of Consultations

7.1 Not applicable.

8 Other Courses of Action Considered but Rejected

8.1 Not applicable.

9 Financial Consequences

9.1 There are no financial consequences.

10 Legal Consequences

10.1 There are no Legal consequences.

11 Staffing Consequences

11.1 There are no staffing consequences.

12 Risk Assessment

12.1 All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).

Appendix 1

Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	This report has no effect on Crime & Disorder issues.
How will the proposal help to promote Human Rights?	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

Appendix 2

SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

Substantial Assurance	System of Control: There is a sound system of control in place which minimises risk to the Council; and/or Compliance with Controls: Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the implementation priority is considered to be of low importance.
Satisfactory Assurance	System of Control: Whilst there is an adequate system of control and all key controls are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or Compliance with Controls: Audit testing identified a lack of compliance with controls in a few areas.
Limited Assurance	System of Control: There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or Compliance with Controls: Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.
No Assurance	System of Control: The system of control is generally weak leaving the system open to significant error or abuse; and/or Compliance with Controls: Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.

Horsham District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP

Building a better working world

Building a better
working world

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The Members
Horsham District Council
Parkside
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Horsham
West Sussex, RH12 1RL

20 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 23 September 2015 Accounts, Audit and Governance Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Horsham District Council.

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

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the Audit Commission's website.

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Horsham District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 25 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 25 September 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.	Our Audit Results Report was issued on 25 September 2015 to the Accounts, Audit and Governance Committee
Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 25 September 2015

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

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

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 25 September 2015

Our detailed findings were reported to the 23 September 2015 Accounts, Audit and Governance Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of Management Override
We found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

Other key findings:
Accounting for property, plant and equipment: The data appears to have been migrated across to the new property, plant and equipment module accurately and completely. We did not identify any significant issues with regards to the implementation of the new module.
Disposal of Park North: The Council accounted for the move from the Park North building correctly in the financial statements. However, the office move constitutes a non-adjusting event and requires disclosure in the financial statements. The Council has amended the financial statements to include this disclosure.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- securing financial resilience, and
- challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2015.

We noted the following issues as part of our audit.

Significant risk 1: Failure to secure longer term financial resilience.

Consideration of the relative spending of the Council by reference to comparable authorities and previous years using the PSAA VFM profile tool: The Council's net spending relative to its statistically nearest neighbours remains low when looking at the Council's planned net expenditure per head of population. This is consistent with our findings in previous years. The Council has made changes to its management structure with the objective of reducing these costs, which should be reflected in the 2014/15 figures when these are available.

Review of the reasonableness and robustness of medium term financial planning assumptions set out in the refreshed MTFS: The Council has a good history of keeping expenditure within budgets. We concluded that the 2015/16 budget has been prepared on prudent and sound assumptions and the Council was planning a small surplus of £175,000 to transfer to general reserves.

The financial challenge facing the Council is clearly set out in its MTFS which was updated during the year as part of the wider update of the Corporate Plan. The MTFS covers the four year period 2015/16 to 2018/19 and sets out key planning assumptions and resources projections. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium term. There is explicit recognition that there remains some uncertainly over the timing and scale of future funding reductions

The Council recognises that after 2015/16 the income from New Homes Bonus (NHB) is uncertain and it may need to use the reserve that it has built up from the balance of NHB funding that is not used to fund revenue expenditure to draw on in the short-term if NHB funding were to reduce or cease altogether.

The Council's financial position remains sound at the end of 2014/15, but the overall level of usable reserves available to support spending is reducing. The Council recognises that additional savings will be required to maintain its financial position.

Conclusion: Although we remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable, it does make clear the significant scale of the financial challenge faced by the Council.

The Council have reserves to meet the deficit in the short-term. However, there is a need to identify further recurrent savings within the current period of the MTFS if the Council is to retain a sustainable financial position.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Ac 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Accounts, Audit and Governance Committee as those charged with governance on 23 September 2015. In our professional judgement the firm is independent and the objectivity of the audit director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which it was not already aware.

4. Looking Ahead

Highways Network Asset (formerly Transport Infrastructure Assets):

CIPFA's Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.

This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.

This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.

Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.

The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways Council, the requirements may still impact if it is responsible for assets such as:

- Footways
- Unadopted roads on industrial estates
- Cycleways
- Street Furniture

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