

## AUDIT COMMITTEE

**MONDAY 20 NOVEMBER 2017**  
**7.00 PM**

**Bourges/Viersen Room - Town Hall**

***THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING***

### AGENDA

Page No

1. **Apologies for Absence**

2. **Declarations of Interest**

At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification " that has been disclosed to the Head of Legal Services.

3. **Minutes of the Meeting Held on 25 September 2017** 5 - 10

4. **External Audit: Annual Audit Letter and Other External Reports** 11 - 38

To receive and approve the External Audit report in relation to issues identified as part of their audit works.

5. **Ernst & Young Progress Report on 2017/18 Audit** 39 - 48



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Karen Dunleavy on 01733 452233 as soon as possible.

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To receive an update from Ernst and Young LLP on progress 2017/18.

**6. Internal Audit: Mid-Year Progress Report 49 - 66**

To receive an update on progress against the Annual Audit Plan together with details of any concerns.

**7. Risk Management: Strategic Risks 67 - 70**

To receive details of the strategic risks impacting on the Council and the mitigating actions to address these.

**8. Treasury Management: Strategy 2018-2028 71 - 104**

For Members to comment on the Treasury Management Strategy 2018-2028.

**9. Impact of Changed Statutory Deadline for Approval of Statement of Accounts 105 - 108**

To approve proposed change to Audit Committee dates and work programme to accommodate the changed statutory deadline for approval of the Statement Of Accounts.

**INFORMATION AND OTHER ITEMS**

**10. Use of Regulation of Investigatory Powers Act 2000 (RIPA)**

The Committee is asked to **NOTE** that there have been no RIPA authorisations in this quarter.

**11. Approved Write-Offs Exceeding £10,000**

The Committee is asked to **NOTE** that there have been no approved write-off amounts to report since 25 September 2017, which exceed the Council's Financial Regulation threshold of £10,000.

**12. Feedback Report 109 - 112**

**13. Work Programme 113 - 124**

**Emergency Evacuation Procedure – Outside Normal Office Hours**

*In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair.*

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. A protocol on this facility is available at:

<http://democracy.peterborough.gov.uk/ecSDDisplay.aspx?NAME=Protocol%20on%20the%20use%20of%20Recording&ID=690&RPID=2625610&sch=doc&cat=13385&path=13385>

Committee Members:

Councillors: Nawaz, Mahabadi, D Over (Vice Chairman), Bull, Aitken (Chairman), K Sharp and A Shaheed

Substitutes: Councillors: R Ferris, Lillis, King and B Saltmarsh

Further information about this meeting can be obtained from Karen Dunleavy on telephone 01733 452233 or by email – [karen.dunleavy@peterborough.gov.uk](mailto:karen.dunleavy@peterborough.gov.uk)

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**MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD AT 7:00PM, ON  
MONDAY, 25 SEPTEMBER 2017  
BOURGES/VIERSEN ROOM, TOWN HALL, PETERBOROUGH**

Present: Councillors Aitken (Chairman), Over (Vice-Chairman), King, Mahabadi, S Nawaz, Shaheed and Saltmarsh.

Officers in Attendance: Marion Kelly, Interim Corporate Director Resources  
Pete Carpenter, Service Director Financial Services  
Ian Pantling, Financial Accounting and Control Manager  
Stephen Gerrard, Interim Director Law and Governance  
Dan Kalley, Senior Democratic Services Officer

Also in Attendance: Suresh Patel, Audit Director, Ernst & Young  
Kay McLennan, Manager Government and Public Audits, Ernst & Young

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Bull, and Sharp. Councillors King and Saltmarsh were in attendance as substitutes.

**2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**3. MINUTES OF THE MEETING HELD ON MONDAY, 26 JUNE 2017**

The minutes of the meeting held on Monday, 26 June 2017 were approved as an accurate and true record.

**4. AUDIT OF STATEMENT OF ACCOUNTS TO THOSE CHARGED WITH GOVERNANCE (ISA260)**

The Audit Committee received a report in relation to the Audit of Statement of Accounts to those charged with Governance (ISA260).

The purpose of the report was for the Audit Committee to receive and note the "Audit Results Report" for the year ended 31 March 2017 from Ernst and Young on behalf of the Council. In addition the Audit Committee was asked to approve the audited statement of accounts.

Ernst & Young introduced the report and informed the Committee that reports were nearly finalised, there was still some work to do around clearing some receipts and school payroll. The Management representation letter had now been received. Ernst & Young were still finishing work on governance accounts and statements, this was to be signed off on Wednesday 27 September 2017.

The Committee were informed that there were no areas of concern to bring to the attention of the Committee and the Annual Governance statement was clear and coherent.

Overall the report was positive report and there were no matters outstanding or in question with regards to value for money. The finance team had demonstrated that they were up for the challenge in producing the statement of accounts within the new timeframes.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The issues around the school payroll were only follow up questions and queries and seeking some clarity.
- The accounts were free from any errors, the work carried out by the finance team and Ernst & Young showed both to be extremely capable.
- There were no common levels of underspend within local authority budgets. Each local authority had their own criteria. Ernst & Young were satisfied with the level of reserves and how they had been reached. However, the finance team would put in place a robust process to examine the reserves.

The Audit Committee considered the report and **RESOLVED** to:

1. Receive and approve the "Audit Results Report - (ISA260) for the year ended 31 March 2017" from Ernst & Young (EY), the Council's external auditors.
2. Receive and approve the audited Statement of Accounts 2016/17.

## **5. RESPONSE TO THE PUBLIC SECTOR AUDIT APPOINTMENTS PROPOSAL TO APPOINT ERNST & YOUNG LLP AS EXTERNAL AUDITORS FOR 5 YEARS FROM 2018/19**

The Audit Committee received a report in relation to the response to the Public Sector Audit Appointments (PSAA) proposal to appoint Ernst & Young LLP as external auditors for 5 years from 2018/19.

The purpose of the report was for the Audit Committee to consider whether to make a representation to Public Sector Audit Appointments on the proposed appointment of Ernst & Young LLP as external auditors for 5 years from 2018/19.

The Service Director - Financial Services, introduced the report and stated that in June 2017 the PSAA completed a procurement to let audit contracts from 2018/19. Ernst & Young were successful in winning the contract and have now been proposed as external auditors for Peterborough City Council

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The PSAA undertook on behalf of a number of local authorities the procurement of external auditors, there was no reason to doubt the process and the recommendation of appointing Ernst & Young as external auditors for Peterborough City Council.
- This was the first time local authorities appointed external auditors for a five year period.
- The PSAA undertook the procurement process to ensure that each local authority receives value for money in the services being offered by external auditors.
- In terms of overall cost Ernst & Young came in cheaper than PWC, however it was more about the service and value for money that Ernst & Young offered over PWC.
- All statutory bodies had to appoint external auditors in order to satisfy statutory requirements.

The Audit Committee considered the report and **RESOLVED** to:

1. Confirm to Public Sector Audit Appointments that it is satisfied with the appointment of Ernst & Young LLP as external auditors for 5 years from 2018/19.

## **6. TREASURY MANAGEMENT MID YEAR UPDATE**

The Audit Committee received a report in relation to the Treasury Management mid-year update.

The purpose of the report was for the Audit Committee to consider current performance and the forecast outturn position against prudential indicators and to seek approval of the use of loans as a form of investment to organisations delivering services for the Council.

The Service Director - Financial Services, introduced the report and outlined to the Committee that the approval to use loans for investment was a change to existing policy. Currently the Council had £20 million invested, with a 2.7% return.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The purpose behind the loans was for investment companies that were to provide infrastructure or services to help Peterborough, which could include the potential of a hotel.
- This was a process of tidying up current practices and making them more transparent.
- There were always risks when issuing loans, however currently most of the ones currently issued involved ensuring good housing provisions. In addition there would be a number of due diligence tests and processes to follow before

any loan was to be issued. Individual loans would need to be approved by the Cabinet.

- The envisaged loan for the hotel was necessary to speed up the regeneration of Fletton Quays by the summer of 2019.
- It was hard to fully understand and quantify the benefits of money being spent on social housing or on projects that did not have a return on investment in monetary form.
- There was no ceiling as to the limit of the value of loans to be made, each authority needed to look at their own circumstances. In addition these limits would be set when full Council meets to discuss council tax rates and financial strategies.
- It was still the Council's responsibility to provide transport for school children even if they went to academies.
- Due diligence processes would be in place to set commercial interest rates.
- A further report on Treasury Management would be presented at the meeting in November.
- A breakdown of the loans currently issued and for what purpose would be provided to members of the Committee.

The Audit Committee considered the report and **RESOLVED** to:

1. Note the current performance against the Treasury Management Strategy (TMS) set in the Medium Term Financial Strategy (MTFS).
2. Approve the use of loans as a form of investment to organisations delivering services for the Council.

**ACTION AGREED:**

1. Briefing note to be sent to Members of the Audit Committee outlining current loans issues and for what purpose.

## **INFORMATION AND OTHER ITEMS**

### **7. USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)**

The Committee noted that there had been no RIPA authorisations in this quarter.

### **8. APPROVED WRITE-OFFS EXCEEDING £10,000**

The Committee noted that there had been no write-offs for the Council exceeding £10,000.

### **9. FEEDBACK REPORT**

The Senior Democratic Services Officer introduced the report and informed Members on the status of actions agreed at the previous meeting.

**ACTION AGREED**



The Committee noted the Feedback Report and work completed since the last meeting.

**10. WORK PROGRAMME 2017/18**

The Senior Democratic Services Officer introduced the report and informed Members that the Work Programme for the year 2017/18 was in line with previous years.

It was agreed that the Draft 2018/19 Treasury Management report was to be presented at the November Committee. In addition the item on Use of Consultants would move to the meeting in February.

**ACTION AGREED**

The Committee noted the Work Programme for the Committee 2017/18.

7:00pm – 7.53pm  
Chairman

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 4
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly - Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Service Director - Financial Services	Tel. 384564

**ERNST & YOUNG LLP ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2017**

R E C O M M E N D A T I O N S	
<b>FROM:</b> Marion Kelly - Interim Corporate Director of Resources	<b>Deadline date:</b> 20 November 2017
<p>It is recommended that Audit Committee:</p> <p>1. Note the Annual Audit Letter</p>	

**1. ORIGIN OF REPORT**

- 1.1 Annual Audit letter of Ernst Young LLP in accordance with The National Audit Office's 2015 Code of Audit Practice.

**2. PURPOSE AND REASON FOR REPORT**

- 2.1 This is a formal letter setting out the detailed findings already reported to 25 September 2017 Audit Committee.
- 2.2 This report is for the Audit Committee to consider under its Terms of Reference No.

*This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance and 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money*

**3. TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	n/a
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**4. BACKGROUND AND KEY ISSUES**

- 4.1 The Auditors tested whether management had the ability to override controls and therefore potentially perpetrate fraud. The Auditors did not identify any material weakness in controls or evidence of management override. (Page 9 of the letter.)

4.2 The Auditors tested revenue and expenditure recognition. The audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position. (Page 10 of the letter.)

4.3 Other areas tested and in which there were no significant audit findings were: (Page 10 and following of the letter.)

- Financial Statements presentation
- Property Valuations
- Pension Valuations and Disclosures
- The need to prepare Group Accounts

4.4 The Auditors also assessed the Council's VFM arrangements and commented: (Page 15 of the letter):

- The 2017/18 budget is balanced, through the use of efficiencies and income plans. The Council has identified savings totalling £20.7 million in 2017/18, and with planned use of the Grant Equalisation reserve of £7.2 million it has closed its budget gap which had stood at £27.9 million. The Council also has earmarked reserves (£33 million at 31 March 2017) which have been established for a number of purposes, including a Grant Equalisation Reserve and a Capacity Building Reserve. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.
- Savings plans were properly managed and monitored and the Council's budget setting process was deemed to be robust, with sensibly prudent assumptions applied to uncertain income streams, risks related to reductions in government funding and future expenditure.
- Reserve levels are reflective of the challenges the Council faces and the Council has built up a level of reserves that it plans to use to assist the transformation.
- The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future-proof the Council's operations.

In agreeing a balanced budget for 2017/18 one-off resources of £19.7million were used, £7.2million of reserves and £12.5million of one-off capital receipts. The 2018/19 Medium Term Financial Strategy sets out the Council's future budget deficit and initial plans on how to close it.

4.5 The letter explains the arrangements for the faster closing timetable for 2017/18 accounts (page 20).

4.6 The Auditors are seeking an additional £2,500 to the £108,533 scale fee set by Public Sector Audit Appointments. It appears that auditing the EFA (page 22) could reasonably be assumed to be comprised in the scale fee; the EFA is now a core requirement. The audit working papers are substantially in the same form as last year's audit and they did not give rise to any additional fee last year. The Council will make appropriate representations to PSAA in respect of any increase sought.

## **5. ANTICIPATED OUTCOMES OR IMPACT**

5.1 To note the Auditors' letter.

## **6. REASON FOR THE RECOMMENDATION**

6.1 To note the report.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

7.1 None

## **8. IMPLICATIONS**

### **Financial Implications**

8.1 The cost of audit is already budgeted, but not any additional fee.

### **Legal Implications**

8.2 None.

### **Equalities Implications**

8.3 None.

## **9. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 The Accounts and Audit Regulations 2015

## **10. APPENDICES**

10.1 App A - 2016/17 Annual Audit Letter

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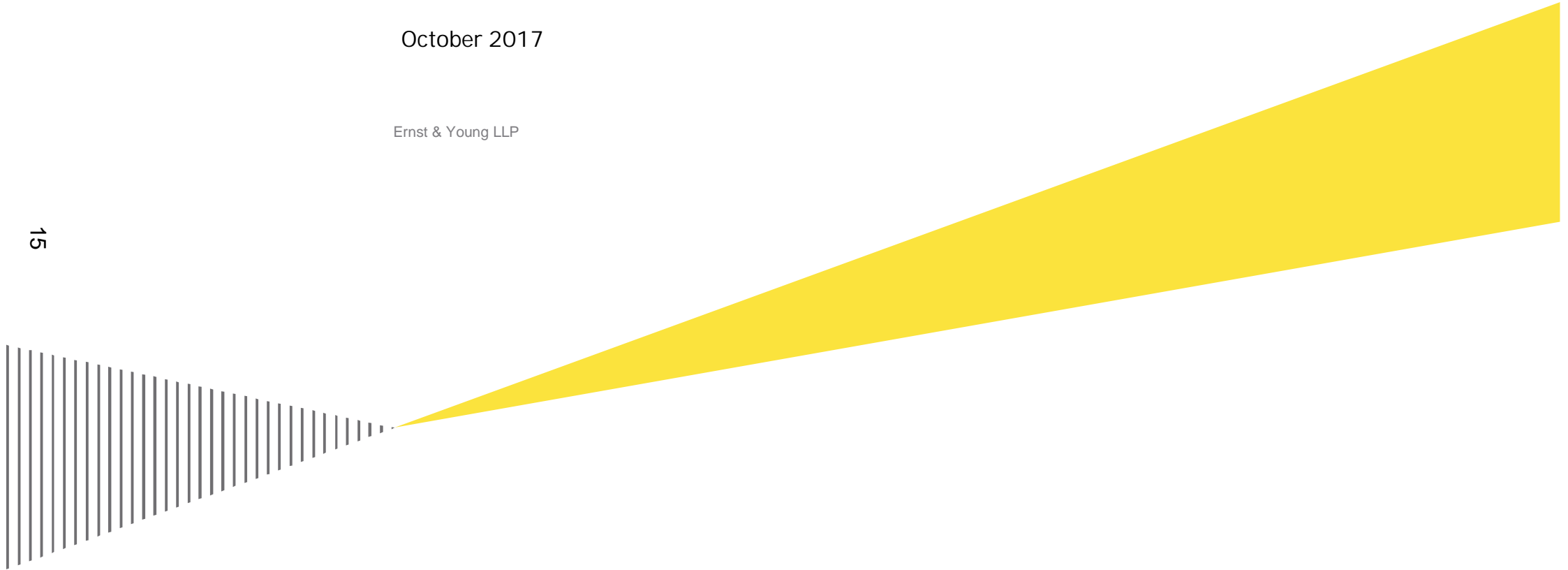
# Peterborough City Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 (updated 23 February 2017)” 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 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.



A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the image, containing the text "Executive Summary".

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Peterborough City Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 13 September 2017, and presented to the Audit Committee on 25 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2017.

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Suresh Patel

Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose and responsibilities



## Purpose and responsibilities

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee meeting on 27 March 2017 and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO.

As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your WGA return. The extent of our review and the nature of our report are specified by the NAO.

### Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported at the 25 September 2017 Audit Committee meeting. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in these estimates. Our work on the property valuations has been completed and we found no indication of management bias to the balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any material instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

**Revenue and expenditure recognition**

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

In our view, as the Council’s main sources of revenue are largely fixed and budgeted for, e.g. government grants and taxation, the revenue recognition risk exists largely in relation to the potential for the incorrect classification of revenue spend as capital. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

We considered whether or not revenue spend had been appropriately capitalised by testing a sample of additions to property, plant and equipment to ensure these were correct to be included as assets on the balance sheet. Our testing did not identify any material expenditure items, which had been inappropriately capitalised.

We tested a sample of income and expenditure transactions based on our established testing threshold for accuracy. We also carried out cut-off testing, where we examined a sample of receipts and payments before and after year end to ensure that the transactions were properly recorded in the accounts.

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

Overall, our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council’s financial position.

**Other Key Findings**

**Financial statements presentation**

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 changing the way the financial statements are presented.

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

The service analysis should be based on the organisational structure under which the Council operates.

This change in the code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

**Conclusion**

We reviewed the Expenditure and Funding Analysis, restated CIES and associated notes.

We agreed with the Council’s assessment for reporting its organisational structure and agreed the restated comparative figures back to the Council’s segmental analysis and supporting working papers. The disclosures were in line with the CIPFA Code of Practice.



Other Key Findings	Conclusion
<p><b>Property valuations</b></p> <p>At 31 March 2017 the value of property on the Council's balance sheet was over £600 million, representing almost 87% of the total assets. To ensure assets are recorded at fair value, the Council adopts a rolling five year revaluation programme (i.e. 20% of assets are revalued each year). This is an exercise which involves judgement, input from external experts and leads to a material accounting estimate.</p> <p>Where there are increases or decreases in asset valuations, the accounting entries required to record these changes affect several primary statements and disclosures in the Council's financial statements.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's property valuer. Therefore, we were able to place reliance on their work and carried out audit procedures to challenge the basis of valuation used by the valuer.</p>
<p><b>Pension valuations and disclosures</b></p> <p>The Council is an admitted body to the Cambridgeshire Pension Fund. Hymans are appointed as actuaries for this fund and provide the Council with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Council.</p> <p>The value of the pension liability is a significant balance sheet item (£272.3 million at 31 March 2017) and represents a material accounting estimate.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary. Our work found that assumptions used by the actuary and adopted by the Council were considered to be generally acceptable. The sensitivities relating to these assumptions had been correctly disclosed in Note 7 to the financial statements, and in the accounting policies note.</p>
<p><b>Preparation of group accounts</b></p> <p>The Council has a number of joint arrangements which may necessitate the preparation of group accounts in the future. The Council has identified and considered all of its relationships with its subsidiaries and other partners and assessed the nature of these arrangements to determine whether they create functional bodies and other entities which could fall within the group boundary and therefore require consolidating into the Council's Financial Statements. These partnership arrangements are disclosed in note 14 to the accounts. Group accounts have not previously been prepared by the Council.</p>	<p>Our approach focussed on the reasonableness of the Council's assessment by reviewing the Council's determination of where overall control lies with regard to the operation and delivery of services of the potential group bodies.</p> <p>We were satisfied with the reasonableness of the Council's evaluation which concluded that it did not need to consolidate any of its arrangements.</p>

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

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for Peterborough City Council to be £9.929 million (2016: £10 million). We reassessed this using the actual results for the financial year, which increased this amount to £10.458 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.</p> <p>We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.496 million, revised to £0.520 million (2016: £0.500 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness.
- Councillors' allowances: we agreed the amounts disclosed in the financial statements to those on the Council's website and carried out substantive testing.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of gold coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

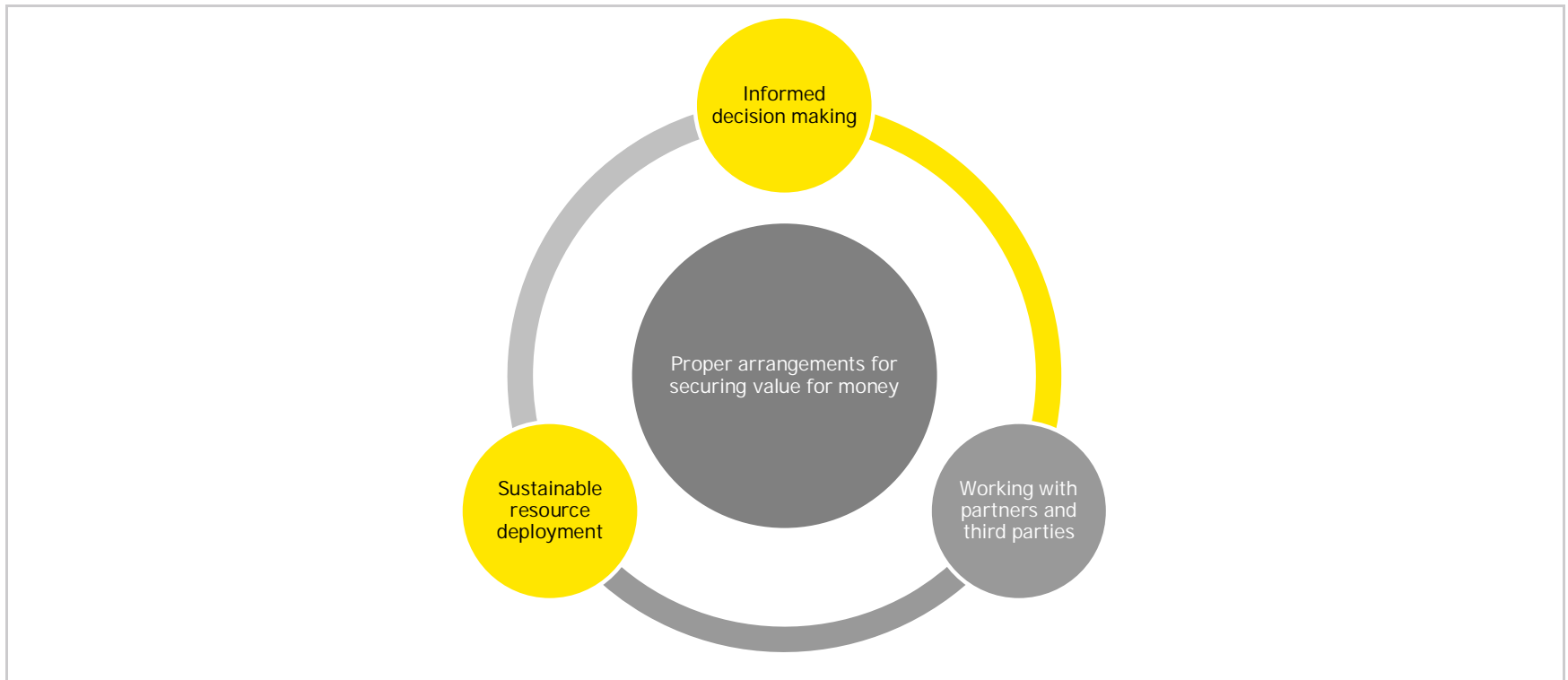
Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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



We identified no significant risks in relation to these arrangements. However, we did focus on the financial resilience of the Council given the financial challenges faced by local government.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness on its use of resources.

We therefore issued an unqualified value for money conclusion on 27 September 2017.

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Consideration of financial resilience	Conclusion
<p>In common with the majority of the local government sector the Council faces significant financial challenges over the next three years. While the budget gap for 2017/18 has been closed, the phasing of reductions in government support and pressures on costs mean that the gap is £14.8 million in 2018/19 and £21.2 million in 2019/20.</p> <p>Therefore, there is a significant budget gap over the medium term, for which the Council has identified a number of savings and actions.</p>	<p>Our consideration focused on a review of:</p> <ul style="list-style-type: none"> <li>• the Council's 2017/18 budget and the medium term forecast, assessing the extent of the savings plans in place;</li> <li>• the robustness of any assumptions used in medium term planning; and</li> <li>• the savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term. This took into account the Council's historic record.</li> </ul> <p>The 2017/18 budget is balanced, through the use of efficiencies and income plans. The Council has identified savings totalling £20.7 million in 2017/18, and with planned use of the Grant Equalisation reserve of £7.2 million it has closed its budget gap which had stood at £27.9 million. The Council also has earmarked reserves (£33 million at 31 March 2017) which have been established for a number of purposes, including a Grant Equalisation Reserve and a Capacity Building Reserve. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.</p> <p>Savings plans were properly managed and monitored and the Council's budget setting process was deemed to be robust, with sensibly prudent assumptions applied to uncertain income streams, risks related to reductions in government funding and future expenditure.</p> <p>Reserve levels are reflective of the challenges the Council faces and the Council has built up a level of reserves that it plans to use to assist the transformation.</p> <p>The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future-proof the Council's operations.</p>

## Other Reporting Issues

## Other Reporting Issues

### 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.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 25 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year.</p> <p>From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has commenced taking steps in 2016/17. It reviewed closedown procedures, reviewed what work could be brought forward and set a faster internal timetable for closure of 2016/17 which it comfortably achieved.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>This year, we carried out some early work at our interim audit stage, including work on valuations and depreciation, accounting policies, the new expenditure and funding analysis, and month 1 to 9 testing of income and expenditure. We plan to extend the amount of early work we complete at next year's interim audit stage.</p> <p>We did have difficulties with some working papers this year and these were discussed with the finance team as they arose.</p> <p>Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. With management's input, we will continue to develop this approach to bring forward our audit during the 2017/18 audit, and we do not expect the formal earlier deadline to pose a significant issue for the Council.</p>

Appendix A

# Audit Fees



## Appendix A Audit Fees

The scale fee is set by the PSAA and was reported in the Audit Plan that we presented to the Audit Committee meeting on 27 March 2017. We set out below the fees for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work (see note 1)	111,033	108,533	108,533	117,408
Total Audit Fee – Certification of claims and returns	TBC	14,055	14,055	13,619
Non-audit work (see note 2)	0	0	n/a	0

Note 1: Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required on schools payroll testing, difficulties with working papers on cash flow, cash and bank, grants and REFCUS, and additional work on the EFA requirement and restatement. We have still to agree the additional fee of £2,500 for this additional work with the Chief Finance Officer. These additional fees are also subject to agreement with PSAA.

Note 2: We confirm that we have undertaken no non-audit work outside the PSAA Code requirements.

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ED None

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 5
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly - Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Service Director - Financial Services	Tel. 384564

## ERNST & YOUNG LLP PROGRESS REPORT ON 2017/18 AUDIT

RECOMMENDATIONS	
<b>FROM:</b> Marion Kelly - Interim Corporate Director of Resources	<b>Deadline date:</b> 20 November 2017
<p>It is recommended that Audit Committee:</p> <p>1. Note the Audit Progress Report of Ernst Young LLP</p>	

### 1. ORIGIN OF REPORT

1.1 Ernst Young LLP

### 2. PURPOSE AND REASON FOR REPORT

2.1 Ernst Young LLP's report sets out progress on the 2017/18 Audit.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No.

*This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance and 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money*

### 3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	n/a
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### 4. BACKGROUND AND KEY ISSUES

4.1 The report sets out progress so far on the audit of the 2017/18 accounts.

4.2 Corporate Finance is working closely with the external auditors to prepare for the 2017/18 audit. The emphasis is on meeting as many external audit requirements as possible ahead of the financial year end.

4.3 There are no significant issues identified in the Progress Report.

## **5. ANTICIPATED OUTCOMES OR IMPACT**

5.1 To ensure that the closure of accounts and audit is completed by 31 July. This is the first financial year that faster timetable is a regulatory requirement.

## **6. REASON FOR THE RECOMMENDATION**

6.1 To note the report.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

7.1 None

## **8. IMPLICATIONS**

### **Financial Implications**

8.1 The cost of audit is already budgeted in the MTFS

### **Legal Implications**

8.2 None.

### **Equalities Implications**

8.3 None.

## **9. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 The Accounts and Audit Regulations 2015

## **10. APPENDICES**

10.1 App A – EY Progress Report



Peterborough City Council  
Audit Progress Report

November 2017

7 November 2017



Dear Members of the Audit Committee

This document provides the Committee with a report on the progress of our audit of the Council's 2017/18 statement of accounts and is part of our commitment to ensuring that our audit is aligned with the Committee's service expectations.

Also on the agenda for the Committee is the Annual Audit Letter for 2016/17. We agreed our detailed Audit Plan with you for that year at the Audit Committee on 27 March 2017.

We will be issuing our 2017/18 Audit Plan for discussion with officers in December 2017, and it will be presented at the February 2018 committee.

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 audit.

Yours faithfully

Suresh Patel  
Associate Partner

For and on behalf of Ernst & Young LLP  
United Kingdom



# 01 Executive Summary



# Executive Summary

## Audit Planning

In November and December we will be completing our planning procedures for the 2017/18 (FY18) audit. This will comprise:

- ▶ Meetings with key staff to discuss the significant risks facing the Council; and
- ▶ Updating our understanding of the Council and its business.

The work we undertake at the planning stage informs our approach to the opinion audit and our value for money conclusion as set out in our audit plan. We will issue the audit plan for discussion with officers in December 2017, and we will present it to the next Audit Committee in February 2018.

## Value for money conclusion

As part of our planning procedures, we consider the Council's significant risks in respect of value for money arrangements.

We anticipate that the budget pressures facing the Council will be a significant risks and we will plan appropriate procedures to understand the Council's arrangements for managing the associated risks.

## Audit of the statement of accounts

- ▶ We audit the Council's Statement of Accounts in line with the NAO Code of Audit Practice (the Code), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirement.
- ▶ We will present an audit plan to the Audit Committee in February 2018, which will detail the significant risks related to our opinion audit.

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the FY18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018.

Following the completion of the FY17 audit we met with the finance team to identify what worked well and areas for improvement. We also agreed areas of focus for supporting the achievement of the earlier deadlines.

Our interim audit in January/February 2018, will comprise:

- ▶ Undertaking walkthroughs of key financial systems and test of controls where applicable.
- ▶ Early work on valuations and depreciation, accounting policies, month 1 to 8 testing of income and expenditure, payroll sampling, and any other areas that the finance team can make available for an early audit.
- ▶ Early use of analytics, to enable us to capture whole populations of your financial data, in particular journal entries. Analytics help identify specific exceptions and anomalies which we can then focus substantive audit tests.

We have agreed with the finance team to commence the final accounts audit visit on 14 May 2018.



# 02 Timetable

## Resources and Finance Committee timeline

- ▶ We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2017/18 Audit Committee cycle.
- ▶ We will provide formal reports to the Audit Committee throughout our audit process as outlined below. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.
- ▶ Following the conclusion of our audit we will prepare an Annual Audit Letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
Fee letter	April 2017	Fee letter (issued 20 April 2017)
Planning, risk assessment and setting of scopes	November – December 2017	Audit plan (to be presented to February 2018 committee)
Walk through of processes, and early accounts audit work	January – February 2018	Interim report (by exception)
Value for money conclusion	March 2018	Interim report (by exception)
Year-end audit	May - June 2018	Audit results report (to those charged with governance) in July 2018. 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). Audit completion certificate Whole of government accounts submission to NAO based on their group audit instructions (deadline still to be confirmed).
Reporting	October 2018	Annual audit letter
Grants reporting	January 2019	Grants Certification report

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ED None

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<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 6</b>
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton Resources Portfolio Holder	
Contact Officer:	Steve Crabtree Chief Internal Auditor	Tel. 384557

### **INTERNAL AUDIT: MID YEAR PROGRESS REPORT 2017 / 2018**

R E C O M M E N D A T I O N S	
<b>FROM:</b> Marion Kelly, Interim Corporate Director of Resources	<b>Deadline date:</b> N/A
<p>Audit Committee are asked that :</p> <p>1. The Internal Audit Update Report to 30 September 2017 be received and the Committee note in particular:</p> <p style="padding-left: 40px;">(a) Progress made against the plan and overall performance of the section; and</p> <p style="padding-left: 40px;">(b) Reports with an opinion of Limited or No Assurance</p>	

#### **1. ORIGIN OF REPORT**

- 1.1 This report is submitted to Audit Committee as a routine planned report within the 2017 / 2018 work programme of the Committee.

#### **2. PURPOSE AND REASON FOR REPORT**

- 2.1 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.1.1 *To consider the annual audit report and opinion of the Executive Director (Strategic Resources) and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements*".
- 2.2 The purpose of this report provides an overall opinion on the soundness of the control environment in place to minimise risk to the council. It is based on the findings of the completed internal audits from the Annual Audit Plan 2017 / 2018 as at 30 September 2017.

### 3. **TIMESCALES**

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	N/A
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### 4. **INTERNAL AUDIT UPDATE**

#### 4.1 Progress against Plan

4.1.1 The progress of the 2017 / 2018 Annual Plan is documented within **Appendix A**. Detail shows the status of those audits included in the original plan, as well as any unplanned audits that have arisen since the plan was approved. As is normal practice, activity in the first six months has focused on jobs which have been date demand led as well as focusing on the closure of the previous year's reviews.

4.1.2 To date 6 grant certifications have been completed and 12 audit projects have been finalised. There are 21 audit projects in progress, which includes 6 at draft report stage, with a further 15 audit projects left to be undertaken in the second half of the year subject to resources. In addition, there are a further 3 audit projects to commence for Vivacity.

#### 4.2 Resources

4.2.1 The role of Chief Internal Auditor has also been provided to Cambridge City Council (from January 2011) and South Cambridgeshire District Council (from July 2013) on a shared management arrangement, delivering financial savings to each Council. With the creation of the Combined Authority in March 2017 – which Peterborough are providing the audit service for – the decision was taken by the Service Director Financial Services in conjunction with the Chief Internal Auditor to inform the other Councils in early 2017 that Peterborough would withdraw from the existing arrangements by 30 September 2017 at the latest. This provided suitable opportunity for the other Councils to appoint a replacement. Whilst an appointment has been made, the successful candidate will not commence in that role until 18 December 2017. Peterborough have agreed to provide 1 day cover per week until that date, a reduction of 2 days per week from the previous agreement.

4.2.2 The audit plan was compiled on the basis of 5.46 FTE being in post throughout the year. Since the approval of the plan, resources have reduced by 0.8 FTE due to a resignation and this post has remained vacant since April 2017. Approval is being sought to recruit to the post but in the interim days have been lost from the plan as a result. If the post is not filled future reviews will be prioritised and Audit Committee will be advised as part of our reporting processes where reviews have been assessed as not being undertaken or rolled forward to the following year.

#### 4.3 Performance

4.3.1 There has been 100% acceptance of audit recommendations to date, against a target of 90%.

4.3.2 Follow-ups carried out to date show that 91.5% of agreed recommendations have been implemented, against a target of 90%.

#### 4.4 Reports with Limited or No Assurance

- 4.4.1 One of four levels of assurance is allocated to each audit review. These assurance levels are: **SUBSTANTIAL; REASONABLE; LIMITED; and NO ASSURANCE.** Where concerns have been identified resulting in limited or no assurance, the Executive Summaries for these reviews are included within Appendix A, once the review has been agreed and finalised. There are no reports that fall into this category at this time.

## **5. CONSULTATION**

- 5.1 This report and the accompanying appendices have been issued to the Service Director Financial Services for consideration.

## **6. ANTICIPATED OUTCOMES OR IMPACT**

- 6.1 That the Audit Committee is informed of Internal Audit's progress against the Annual Audit Plan and its business plan performance. In addition, that the Audit Committee is made aware of any key control issues highlighted by our work since the last progress report.

## **7. REASON FOR THE RECOMMENDATION**

- 7.1 The Council is subject to the Accounts and Audit Regulations 2015 and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice and the Public Sector Internal Audit Standards. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. This report and associated papers demonstrate how the audit service is progressing against the audit plan how it will contribute to the Statement.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 The alternative of not providing an Internal Audit service is not an option.

## **9. IMPLICATIONS**

### **Financial Implications**

- 9.1 During the year, Internal Audit makes a number of recommendations. While implementing these may have resource implications for the various areas under review, Internal Audit discuss and agree recommendations with the Auditee prior to the issue of the final audit report. Therefore, it is assumed that their implementation can and will be undertaken either with existing resources or with additional resources that they can readily call upon.

### **Legal Implications**

- 9.2 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations. There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

### **Equalities Implications**

9.3 None

**10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Internal Audit Annual Plan 2017 / 2018

Internal Audit reports

**11. APPENDICES**

11.1 **Appendix A** - Progress of Audit Plan 2017 / 2018 (To 30 September 2017)

**APPENDIX A**



**INTERNAL AUDIT MID-YEAR  
PROGRESS REPORT 2017 / 2018  
TO 30 SEPTEMBER 2017**

## 1. **INTRODUCTION**

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit Committee and the Executive Director for Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives.
- 1.2 The purpose of this report is to bring the Committee up to date with progress made against the delivery of the 2017 / 2018 Internal Plan, as at September 2017. The information included in the progress report will feed into and inform our overall opinion in the Annual Audit Opinion report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council.
- 1.3 Where appropriate each report we issue during the year is given an overall opinion based on four levels of assurance. To obtain this assurance, we look at the number and type of recommendations we make in each report and are summarised below:

<b>AUDIT ASSURANCE OPINIONS</b>	
<b>Assurance</b>	<b>Definitions</b>
<b>Substantial</b>	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There may be some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
<b>Reasonable</b>	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
<b>Limited</b>	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
<b>No</b>	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

- 1.4 Should an audit report identify **LIMITED** or **NO** assurance, then as a matter of course those areas are followed up. Our work is carried out to assist in improving control. **However management is responsible for developing and maintaining an internal control framework.**
- 1.5 Our recommendations are graded, dependent on the severity of the findings, see below:

<b>RECOMMENDATION RATINGS</b>		
<b>Status</b>	<b>Definitions</b>	<b>Implementation</b>
<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service.	Immediately
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	As a matter of priority
<b>Medium</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	At the first opportunity
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	As soon as reasonably practical

## 2. **RESOURCES, PERFORMANCE AND OUTPUTS**

### 2.1 Resources

- 2.1.1 The role of Chief Internal Auditor has also been provided to Cambridge City Council (from January 2011) and South Cambridgeshire District Council (from July 2013) on a shared management arrangement, delivering financial savings to each Council. With the creation of the Combined Authority in March 2017 – which Peterborough are providing the audit service for – the decision was taken by the Service Director Financial Services in conjunction with the Chief Internal Auditor to inform the other Councils in early 2017 that Peterborough would withdraw from the existing arrangements by 30 September 2017 at the latest. This provided suitable opportunity for the other Councils to appoint a replacement. Whilst an appointment has been made, the successful candidate will not commence in that role until 18 December 2017. Peterborough have agreed to provide 1 day cover per week until that date, a reduction of 2 days per week from the previous agreement.
- 2.1.2 The Chief Internal Auditor is also charged with management responsibility for both the Insurance and the Investigations Teams at Peterborough City Council as well as overseeing / undertaking any Stage 2 Corporate Complaints reviews as deemed appropriate. During the first half of the year, the Insurance section has been re-structured, has had its corporate insurance software upgraded and steps are in train to re-tender for the Councils corporate insurance policies. Investigations have focussed on works in relation to staffing issues; blue badge misuse and Council Tax Reduction Scheme breaches. Further works have covered the National Fraud Initiative. Just under £9,000 has been identified to be recovered. The Annual Investigation Fraud report will provide further insight into this. The Chief Internal Auditor has reviewed 16 Stage 2 Complaints during the first six months, which have either resulted in referral back to department for further works to address the issues; referral back to Central Complaints as there is a conflict for the Chief Internal Auditor / other investigators to undertake the review; acceptance of the complaint and proposing how it can be rectified; or closure as all routes have been exhausted.
- 2.1.3 PCC Internal Audit provides audit services to Vivacity–Peterborough which is managed through a Service Level Agreement. The contract arrangements have been operational since 2010. These reviews are client confidential and as a result their outcomes are only available to Vivacity.
- 2.1.4 In addition to the external work provided to Vivacity Peterborough, Internal Audit have been requested to provide internal audit services to the new Combined Authority. This is primarily due to PCC's finance systems being utilised on behalf of the Combined Authority. A nominal amount of time was allocated from resources in the planning process and the time likely to be required for this year is 30 days. Any work undertaken is chargeable to the Combined Authority. These reviews are similarly client confidential and reports are only available to the Combined Authority.
- 2.1.5 The audit plan was compiled on the basis of 5.46 FTE being in post throughout the year. Since the approval of the plan, resources have reduced by 0.8 FTE due to a resignation and this post has remained vacant since April 2017. Approval is being sought to recruit to the post but in the interim days have been lost from the plan as a result. If the post is not filled this will result in a reduction of approximately 140 days



from the plan for the year. Future reviews will be prioritised and committee will be advised as part of our reporting processes where reviews have been assessed as not being undertaken or rolled forward to the following year.

## 2.2 Performance Indicators

2.2.1 Performance indicators set for the service are regularly monitored and reported through to Committee. The current status is as follows:

- There has been 100% acceptance of audit recommendations to date, against a target of 90%.
- Follow-ups carried out to date show that 91.5% of agreed recommendations have been implemented, against a target of 90%

2.2.2 A review of internal audit effectiveness is included within the plan and in progress. The review will self-assess processes against the Public Sector Internal Audit Standards (PSIAS) prior to an external assessment.

## 2.3 Audit Activities undertaken during the year to date

2.3.1 The progress of the 2017/ 2018 Annual Plan is documented below as **Appendix B**. To date 6 grant certifications have been completed and 12 audit projects have been finalised. There are 21 audit projects in progress, which includes 6 at draft report stage, with a further 15 audit projects left to be undertaken in the second half of the year subject to resources. In addition, there are a further 3 audit projects to commence for Vivacity.

2.3.2 There have been no finalised reports with a **LIMITED** or **NO** assurance rating to date. Audit Committee will be advised of any future reports falling within these categories as part of the audit committee timetable.

2.3.3 It is too early in the audit year to provide an opinion on the internal controls operating across the Council that have been subject to audit from the 2017 / 2018 audit plans and with the work undertaken in its infancy there are no significant issues to be brought to the Committees attention.

Steve Crabtree  
Chief Internal Auditor  
October 2017

3 **PROGRESS AGAINST AGREED AUDIT PLAN****Appendix B**

Where audits are “shaded”, these represent those jobs not started at 30 September 2017.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>CORE SYSTEM ASSURANCE WORK</b>								
Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority’s Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.								
Budgetary Control	All	<b>To Commence Quarter 4</b> A risk based review concentrating on budget management within one or more directorates, or on a major project. Focus to be on the risks highlighted of: <ul style="list-style-type: none"> <li>• budget managers failing to forecast accurately</li> <li>• budget managers failing to manage budgets within control totals</li> </ul>						
Payroll	Resources / Serco	<b>To Commence Quarter 4</b> A review of payroll arrangements both centrally and within departments to include starter, leavers and variations to pay.						
Accounts Receivable – Debt Recovery	Serco / Resources	<b>In Progress –</b> A follow on review of billing and debt recovery arrangements centrally and within specific departments to establish the effectiveness and progress of recovery arrangements since the previous review.						
HR IT System	Chief Executive	To commence if HR IT system modules are implemented. A review of the control framework during the design and implementation of a new HR IT system designed to enable self-service. Modules likely to be introduced include recruitment with others being reviewed as identified. Highlighted Risk: Failure to achieve potential benefits/business needed from IT investment.						

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK</b>								
<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement, as well as high level governance reviews.</b>								
Annual Governance Statement Review	All	<b>Completed</b>						Presented as draft to Audit Committee on 26 June 2017 and final agreed by Audit Committee on 25 September 2017.
Code of Corporate Governance	All	<b>Completed</b>						Consultancy advice and the compilation of a new local Code of Corporate Governance and setting up a governance monitoring framework.
Annual Audit Opinion / Progress Report	All	<b>Completed</b>						Annual Opinion presented to Audit Committee on 26 June 2017 and Progress Report being presented on 20 November 2017.
Annual Audit Plan	All	<b>To Commence Quarter 3</b>						Establishment of the future plans for 2017 / 2018.
Internal Audit Effectiveness / Audit Committee Effectiveness	All	<b>In Progress</b>						Review of the internal audit service against the new Public Sector Internal Audit Standards and a best practice review of the Audit Committee.
Annual Investigation Report		<b>Completed</b>						Annual Opinion presented to Audit Committee on 26 June 2017
Information Governance	All	<b>Ongoing</b>						Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group. Key focus areas to date have been data storage, retention of documents and the implications of the Data Protection Act 2018.

Risk Management	All	<b>Ongoing</b> Involvement in risk working group and any emerging issues.
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AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>ANTI FRAUD CULTURE</b>								
<b>The Councils approach to assessing the controls and mitigating the risk of fraud</b>								
National Fraud Initiative	All	<b>In Progress</b> Ongoing review of the data matches for the 2016 NFI exercise to include liaison with other authorities and external bodies. Examples of data sets include: Payroll, Blue Badges, Concessionary Travel, Right to Work, Personal Budgets, VAT etc. Majority of data matches have identified data quality issues. Where matches have identified irregular activity, just under £9,000 has been identified.						
Serious and Organised Crime	All	<b>To Commence Quarter 3/4</b> The Serious and Organised Crime (SOC) report was issued in December 2016 and makes various recommendations on the key areas subject to risk of organised crime. A collaborative approach is recommended and selected aspects of the report are to be reviewed: Facilitation of a self-assessment anti-fraud health check – High level review of the SOC check list covering a range of areas such as Strategy, Communication, Data Sharing, Risk Management. Review of Passenger Transport procurement and contract management arrangements – to include responsibility for DBS and safeguarding both at contract procurement and subsequent monitoring during the contract life. Taxi Licensing – Processes for the issuing of taxi licenses to include safeguarding and changes in licensing arrangements, Gifts and Hospitality / Officer and Member External Interests Register – Covering the processes in place to protect against ‘Insider Threat’ aspects of the SOC report.						

Fraud Register		<b>To Commence Quarter 3</b> Facilitation of the development of a fraud risk register
Corporate Fraud Policies		<b>In Progress (Draft)</b> New / updated policies have been established for Anti-Fraud and Corruption Strategy and an associated Policy; together with the Anti Bribery Policy; Money Laundering Policy; and the Council Tax Reduction Scheme Prosecution Policy. These are out for discussion and approval. <b>Unplanned</b> Corporate Criminal Offence legislation came into force in September 2017. Review undertaken as a self-assessment against standards and actions to ensure compliance.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>DELIVERING COUNCIL SERVICES THROUGH NEW WAYS OF WORKING</b>								
<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks</b>								
Strategic Partnerships	Growth and Regeneration	<b>Reasonable</b>	0	1	2	1	4	A review of Skanska partnership management arrangements. - Final
Programme / Project Management	People and Communities	<b>In Progress</b>	A review of project governance arrangements for Nene Park Academy Project to include compliance with corporate processes.					
Contracts	Growth and Regeneration	<b>In Progress</b>	Materials Recycling Facility – A review of contract arrangements to include data collection, performance, income sharing. A joint exercise being undertaken with other Cambridgeshire authorities which is being co-ordinated by Peterborough.					

Commercial Activities		<p><b>In Progress</b></p> <p>A review of governance arrangements for the Peterborough Investment Partnership.</p>
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AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>								
Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks								
Registrars	Resources	<b>Substantial</b>	n/a	n/a	n/a	n/a	n/a	<p><b>Complete</b></p> <p>Review of certificate stocks and finances as part of the HMG Security Policy Framework</p>
Energy Management System			<b>Completed</b>					<p>Consultancy advice regarding SystemsLink and associated business case.</p>
Health and Safety			<b>Unplanned - In Progress</b>					<p>A review of Health and Safety internal governance arrangements.</p>
Highways Asset Management System			No longer required.					<p>Review of the data quality and completeness of the Asset Management Valuation Toolkit has been suspended.</p>
Information Governance			<b>In progress</b>					<p>A review of our compliance with ICO requirements focussing on some specific areas. In particular we will look at:</p> <ul style="list-style-type: none"> <li>• Data Sharing</li> <li>• Freedom of Information.</li> </ul>

School Places	People and Communities		<b>To Commence Quarter 3</b> A review of one aspect of mitigating actions to monitor in year admissions and trends around numbers leaving the city, in particular processes and forms being developed to improve data collection
Schools			<b>To Commence Quarter 3 / 4</b> Themed reviews of a variety of schools. For example, SEN funding or selected categories from the Schools Financial Value Standard self-assessment.
Carbon Reduction Commitment	Growth and Regeneration	Annual Certification	<b>Completed</b> Annual data validity audit and a review of changes to methodology with regards to a new automated system for data collection. Associated memos relating to operating processes are in draft.
Blue Badges Follow up	Resources		<b>To Commence Quarter 4</b> A review of processes for issuing and cancelling permits.

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AUDIT ACTIVITY	Department	ASSURANCE LEVEL	COMMENTARY
<b>GRANT CLAIM CERTIFICATION</b>			
<b>Certification of claims in relation to UK and European funding requirements</b>			
Bus Service Operators 2016 / 2017	Growth and Regeneration	Certified	A grant to support bus services, including community transport services.
Local Transport Funding Grant 2016 / 2017	Growth and Regeneration	Certified	This grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.

Local Sustainable Transport Grant 2016 / 2017	Growth and Regeneration	Certified	A scheme to help local authorities to cut carbon emissions and create local growth.
Disabled Facilities Grant 2016 / 2017	People and Communities	Certified	Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.
Troubled Families	People and Communities		<b>In progress</b> Results based funding to support families meeting certain criteria. Verification of a sample of claims prior to one of the claim submissions in 2017, and a review of Outcomes Plan and procedures. Work is ongoing throughout the year.
Rogue Landlords	People and Communities	No longer required	Outputs based funding covering criteria such as inspection numbers, street surveyed and enforcement actions.
Carbon Reduction Commitment	Growth and Regeneration	Certified	Carbon Reduction Commitment. Annual data validity audit and a review of changes to methodology with regards to a new automated system for data collection.
NCLT Grant 2017	People and Communities		<b>To commence in Quarter 3</b> The National College for Leading and Teaching Grant 2017 – Work undertaken on behalf of Hampton Hargate School which includes certification of bursaries, school to school support and core grant funding.
Bourges Boulevard Phase 1	Growth and Regeneration		<b>Unplanned – In progress</b> Certification of grant funding received from GCGP and the appropriateness of funding application.
Junction 20	Growth and Regeneration		<b>Unplanned – In progress</b> Certification of grant funds awarded through the Growth Deal Programme and appropriateness of funding application.
Direct Debit Competition	Resources / Serco	Audit Verification	<b>Unplanned - Complete.</b> Adjudication and verification of the competition draw process.



<b>EXTERNAL WORKS</b>	<b>Work which generates income for the council</b>
Combined Authority	See 2.1 1 review in progress.
Vivacity	See 2.1 2 reviews completed and 3 reviews in progress

<b>AUDIT ACTIVITY</b>	<b>Department</b>	<b>ASSURANCE LEVEL</b>	<b>RECOMMENDATIONS MADE</b>					<b>COMMENTARY</b>
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Total</b>	
<b>OTHER RESOURCE PROVISION</b>								
Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.								
<b>CARRY FORWARD ACTIVITIES</b>								
Highways Asset Management System	Resources	<b>Reasonable</b>	0	0	2	1	3	<b>Final</b> A review of the Highways Network Asset Code prior to the CIPFA/LASAAC Code Board withdrawing the scheme.
Winyates Primary School follow up	People and Communities							<b>Draft.</b> In discussions with school prior to finalisation.
Accounts Payable	Serco / Resources							<b>In draft</b>
Information Governance	Governance	<b>Reasonable</b>	0	4	8	5	17	<b>Final</b>

									A review using the Information Commissioner's Office online self-assessment
Blue Badges	Resources								<b>Draft</b> A review of the processes for issuing and cancelling permits.
Recruitment Checks / Disclosure and Barring	Governance / Serco								A review to ensure that there is a robust process in place for recruitment checks and for monitoring that contractors fulfil responsibilities. <b>In draft</b> awaiting update following external PSN assessment
Cyber Security	Resources / Serco								<b>In progress</b> Awaiting update from an external review prior to determining further action.
<b>FOLLOW UP PROVISION</b>									
Local Offer	People and Communities	N/A	n/a	n/a	n/a	n/a	n/a	n/a	<b>Complete</b> Management action plan has been implemented and is regularly monitored
Carbon Reduction Commitment Follow-up	Growth and Regeneration	N/A	n/a	n/a	n/a	n/a	n/a	n/a	<b>Complete</b>
Statutory Testing follow - up	Growth and Regeneration / NPS		<b>In progress</b>						
Schools Statutory Testing	People and Communities / NPS		<b>In progress</b>						

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 7
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly - Interim Corporate Director Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Kevin Dawson, Head of Resilience	Tel. 453464

## RISK MANAGEMENT - STRATEGIC RISKS

RECOMMENDATIONS	
<b>FROM:</b> Kevin Dawson, Head of Resilience	<b>Deadline date:</b> N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> <li>1. Comment on and note the latest Risk Management Report.</li> </ol>	

### 1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on risk management.

### 2. PURPOSE AND REASON FOR REPORT

2.1 The report is also to provide the Committee with:

- The profile of Corporate risks faced by the Council;
- Details of significant changes to the Corporate Risk Register since the last report to the Committee in March 2017; and
- The profile of risks faced by corporate and executive directorates.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.12

To monitor the effective development and operation of risk management and corporate governance in the council.

### 3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	N/A
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### 4. BACKGROUND AND KEY ISSUES

4.1 In accordance with best practice, the Council operates a risk management approach at corporate and service levels across the Council, seeking to identify key risks which might prevent the Council's priorities from being successfully achieved.

4.2 The risk management approach is encapsulated in the following key documents:

- Risk Management Policy

This document sets out the Council's Policy on the management of risk, including the Council's approach to the level of risk it is prepared to countenance as expressed as a maximum risk appetite.

The Risk Management Policy states that the Council aims to manage risk in a manner which is proportionate to the risk faced based on the experience and expertise of its senior managers, although this must be within the Council's risk appetite. Audit Committee members are therefore reminded that accepting a residual risk score of amber is appropriate provided that an objective risk assessment has been undertaken.

This document details the procedures through which the Council will identify, assess, monitor and report key risks. The Risk Management Procedures document is owned by the Corporate Management Team (CMT).

4.3 The key role of Audit Committee in the management of risk is:

- It provides independent assurance of the adequacy of the Council's risk management framework and the associated control environment.

4.4 Risk Identification

The Council's approach to risk identification is described in the following extract from the Council's Risk Management Policy as approved by CMT:

Risk management should operate within a culture of transparency and openness where risk identification is encouraged and risks are escalated where necessary to the level of management best placed to manage them effectively;

- Risk management should be embedded in everyday business processes;
- Officers of the Council should be aware of, and operate, the Council's risk management approach where appropriate;
- Members should be aware of the Council's risk management approach and of the need for the decision making process to be informed by robust risk assessment, with Audit Committee members being involved in the identification of risk on a six monthly basis.

Ownership of the Corporate Risk Register (CRR) lies with CMT.

4.5 **CORPORATE RISK REGISTER UPDATE**

Following a review of corporate risks during October/November 2017, CMT is confident that the CRR is a comprehensive expression of the main risks faced by the Council and that mitigation is either in place, or in the process of being developed, to ensure that each risk is appropriately managed.

4.6 **REVIEW OF CORPORATE RISKS**

**Risk 1: Failure to plan for/realise implications of Growth Agenda**

The Corporate Risk Register currently scores the residual risk of failure as amber and there has been no change in the score since the last review in April 2017.

**Risk 2: Impact of social demographic change**

The score within the Corporate Risk Register remains at red and the description and actions have been clarified to mitigate the risk.

**Risk 3: School places**

The score within the Corporate Risk Register remains at red and the strategies have been updated to mitigate the risk.

#### **Risk 4: Corporate manslaughter/health and safety incident**

There are no changes in this risk and the Corporate Risk Register score remains at amber.

#### **Risk 5: Crime and ASB Reduction/Cohesion**

The Corporate Risk Register continues to score this risk at amber however the actions have been reviewed and judged to reflect current practice

#### **Risk 6: Safeguarding**

The Corporate Risk Register continues to score this risk at red however the actions have been reviewed and reflect current practice.

#### **Risk 7: Information Governance**

The score and amber rating within the Corporate Risk Register remains the same however the actions have been revised to reflect the recent policy review and the moving of this function over to People and Communities

#### **Risk 8: Financial position**

The budget for 2018/19 has not yet been balanced, so the budget risk is red. Additionally, the budget for the 3 year MTFS is not yet sustainable. Mitigating actions will take place as part of phase 2 and the development of budget options for 2019/20 and 2020/21.

#### **Risk 9 :Strategic Partnerships failing to deliver as per expectations**

There have only been minor changes within this risk reflecting the current arrangement with Norse and the mutual termination of the current Amey Partnership. The amber rating remains the same.

4.6 This report is supported by:

- The Corporate Risk Management Policy
- The Corporate Risk Register

### **5. CONSULTATION**

5.1 N/A

### **6. ANTICIPATED OUTCOMES OR IMPACT**

6.1 Audit Committee note and comment on the contents of this report.

### **7. REASON FOR THE RECOMMENDATION**

7.1 Risk management is a key component of the Council's Corporate Governance Framework which will take time to review and embed effectively.

### **8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 None

## **9. IMPLICATIONS**

### **Financial Implications**

9.1 None

### **Legal Implications**

9.2 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk.

### **Equalities Implications**

9.3 The identification of risks and the proper management of those risks will ensure that:

- The Council's environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Peterborough City Council Risk Management Policy *v4.9 Nov 2017*

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 8
<b>20 NOVEMBER 17</b>	<b>PUBLIC REPORT</b>

Committee Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	Marion Kelly, Interim Corporate Director: Resources Peter Carpenter, Service Director: Financial Services	☎ 452520 ☎ 384564

### CONSULTATION ON 2018/19 TREASURY MANAGEMENT STRATEGY

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM : Marion Kelly</b> , Interim Corporate Director: Resources	<b>Deadline date:</b> <b>N/A</b>
<p>Audit Committee is asked to</p> <ol style="list-style-type: none"> <li>1. To review and comment on the draft 2018/19 Treasury Management Strategy (TMS) before a final strategy is produced once the Revenue Budget and Capital Programme are finalised in February 2018.</li> </ol>	

#### 1. ORIGIN OF REPORT

- 1.1 The Treasury Management in the Public Services: Code of Practice 2011 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.2 The annual strategy is approved by Council as part of the MTFs once the Revenue Budget and Capital Programme are finalised and the Members are required to review and comment on the draft strategy to ensure compliance with best practice.

#### 2. PURPOSE AND REASON FOR REPORT

- 2.1 To provide a draft narrative of the Treasury Management Strategy 2018/19 to Audit Committee for comment and input on Treasury Management policies before receipt of a completed revised version in February 2018 once the Capital Programme for the next 10 years is agreed. The report contains only policies, as the numbers will be included for the next committee.
- 2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

#### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>Yes</b>	If Yes, date for relevant Cabinet Meeting	<b>Feb 2018</b>
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#### **4. TREASURY MANAGEMENT STRATEGY**

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

- a) Capital investment plans are affordable;
- b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
- c) Treasury management decisions are taken in accordance with professional good advice.

4.2 The draft narrative of the 2018/19 – 2027/28 TMS is shown in separate report.

4.3 The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays, Bank of Scotland (part of the Lloyds Banking Group) and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

4.4 The Council has continued to borrow to fund the capital programme. Loans have been arranged at interest rates to achieve budget certainty and for varying periods to fit in with the Councils debt maturity profile.

4.5 The only proposed changes to the draft TMS policies from last year's MTFS Treasury Strategy are as follows and are in section 4.5 of the Appendix:

- Forward Borrowing Product with Link asset Services
- Achieve an even spread of loan maturities
- The aim for the Council to reduce it's overall debt
- The use of Capital receipts or S106 receipts to make revenue provision as a one off saving
- In the event of significant interest changes Council seeks to avoid an increase in revenue cost.
- Establish a more realistic capital programme using the Capital Review Group.

4.6 The Bank of England Monetary Policy Committee increased the Base Rate to 0.50% in November 2017. This was the first increase in interest rates since July 2007. This increase will have an impact on the cost of any new borrowing taken after this date as well as on income received from investing surplus cash balances.

#### **5. CONSULTATION**

5.1 The Council's Prudential Code and Treasury Management Strategy 2018/19-2020/21 will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services. (Name changed 3<sup>rd</sup> November 2017 - Previously Capita Asset Services).



## **6. ANTICIPATED OUTCOMES**

- 6.1 As set out in the report.

## **7. REASONS FOR RECOMMENDATIONS**

- 7.1 This report is given to the Committee to provide the opportunity to review and comment on the draft policies of the 2018/19 TMS in advance of the final report which is presented to Committee in February 2108.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

The Prudential Code and Treasury Management Strategy 2018/19-2026/27 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2011. This report will set out the performance against the associated indicators in the report in February 2017.

## **9. IMPLICATIONS**

- 9.1 To provide the Committee the opportunity to review and comment on the draft policies under pinning the TMS 2018/19 – 2027/28.

### **Legal Implications**

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

## **10. BACKGROUND DOCUMENTS**

(Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- The Prudential Code for Capital Finance in Local Authorities –2011 Edition, CIPFA; and
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2011 Edition, CIPFA

## **11. APPENDIX – Discussion Paper on TMS 2018/19**

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# Discussion Paper

## Treasury Management Strategy

### 2018/19 to 2027/28

Including:

Minimum Revenue Provision Policy 2018/19

## 1. Introduction

### 1.1 Background

1.1.1 The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.2 Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

1.1.3 CIPFA defines treasury management as:

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

### 1.2 Reporting requirements

1.2.1 The Council is required to receive and approve, as a minimum, three reports each year. These reports are to be scrutinised by the Audit Committee before being recommended to Council.

1.2.2 The Treasury Management Strategy report will cover:

- the capital programme (including prudential indicators)

- a Minimum Revenue Provision (MRP) Policy
- the Treasury Management Strategy including treasury indicators; and
- an Investment Strategy

1.2.3 A mid-year Treasury Management Report will update members of the Audit Committee with the progress of the capital programme and amending prudential indicators as necessary.

1.2.4 Any revisions to the Treasury Strategy will need to be approved by Full Council.

1.2.5 An Annual Treasury Report will provide details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy presented alongside the Statement of Accounts.

### 1.3 Treasury Management Strategy for 2018/19

1.3.1 The strategy for 2018/19 will cover

- |   |  |
|---|--|
| • Policy on use of external advisors              | • Borrowing strategy                       |
| • Capital programme and the Prudential Indicators | • Policy on borrowing in advance of need   |
| • MRP strategy and policy                         | • Debt rescheduling                        |
| • Current treasury position                       | • Investment strategy                      |
| • Treasury indicators                             | • Creditworthiness policy                  |
| • Interest rates                                  | • Treasury Management Scheme of Delegation |

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance,

the CIPFA Treasury Management Code and the CLG Investment Guidance.

#### **1.4 Treasury Management Advisors**

- 1.4.1 The Council uses Link Asset Services (previously Capita Asset Services), as its external treasury management advisors. This will be extended beyond the December 2017 expiry.
- 1.4.2 The Council recognises that responsibility for treasury management decisions remain with the organisation at all times and will ensure that undue reliance is not placed upon external advisors.
- 1.4.3 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

#### **1.5 Proposals to amend the CIPFA Treasury Management and Prudential Codes**

- 1.5.1 CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management. Although finalised revised codes are not expected until November at the earliest, local authorities may wish to consider writing a report on non-treasury investments to deal with such

purchases, their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake these purchases. The Treasury Management Strategy (TMS) could then include a high-level summary of this report on non-treasury investments and refer members to it if they wish to see the detail.

- 1.5.2 N.B. All non-treasury investments and financial guarantees, loans etc are already required to be part of the TMS for Scottish authorities so this proposal would put English and Welsh authorities using a similar format.
- 1.5.3 CIPFA has also indicated in its draft proposals that they will be withdrawing the following prudential indicators which have caused confusion as to how to calculate them -
  - Incremental impact of capital investment decisions on council tax
  - Estimates of the ratio of financing costs as a percentage of net revenue stream for three years ahead
  - Actual ratio of financing costs to net revenue stream (after the year-end)
  - Q4 of the Prudential Code consultation questionnaire also questioned whether HRA indicators should be removed. This will not affect the Council as it is not an HRA Council.
- 1.5.4 The Council may wish to consider deleting the above indicators from the TMS, if writing the TMS report prior to CIPFA publishing its final proposals, although the Council suggest that these are quite important indicators and should be included as local indicators even if they are removed as required indicators.

1.6 CIPFA have also indicated that there will be a change to the requirement to report on investments for longer than 364 days to longer than 365 days. This change has been incorporated into Indicator 11 paragraph 4.7.19.

**2. Capital Prudential Indicators 2018/19 to 2027/28**

2.1.1 The Council's capital programme is the key driver of the treasury management activity. The output of the capital

programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.1.2 **Indicator 1 – Capital Expenditure** – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following nine financial years.

<b>(1a) Capital Expenditure</b>	<b>2016/17 Actual</b>	<b>2017/18 Est.</b>	<b>2018/19 Est.</b>	<b>2019/20 Est.</b>	<b>2020/21 Est.</b>	<b>2021/22 Est.</b>	<b>2022/23 Est.</b>	<b>2023/24 Est.</b>	<b>2024/25 Est.</b>	<b>2025/26 Est.</b>	<b>2026/27 Est.</b>	<b>2027/28 Est.</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Governance												
People & Communities												
Resources												
Growth & Regeneration												
Invest to Save												
<b>Total</b>												
<b>Financed by:</b>												
Capital receipts												
Capital grants & contributions												
<b>Net financing requirement</b>												
<b>Total</b>												

- 2.2 The previous table summarises the capital expenditure which is shown in more detail in the Capital Strategy Annex One including how it will be funded either from grants, contributions, or capital receipts with the remaining 'net financing need for the year' to be sourced via borrowing. The capital receipts shown in the tables for future years relate to the return of the LAMS capital loan and Fletton Quays loan notes.
- 2.3 The Invest to Save schemes are included in the tables that detail total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.
- 2.4 **Indicator 2** – Capital Financing Requirement (CFR) – the underlying need to borrow for capital purposes is measured by the CFR. Useable reserves and working capital are the underlying resources available for investment. The current strategy is not to borrow for the full underlying need. Some
- 2.5 internal resources are used instead of external borrowing. The CFR is the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.
- 2.6 The main issue for the Council is that the Council does not pay off debt at the moment therefore as the Council continues to invest in the City the borrowing will increase.
- 2.7 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet following the IFRS conversion in 2010/11. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next ten financial years:

<b>(2) Capital Financing Requirement</b>	<b>2016/17 Actual</b>	<b>2017/18 Est.</b>	<b>2018/19 Est.</b>	<b>2019/20 Est.</b>	<b>2020/21 Est.</b>	<b>2021/22 Est.</b>	<b>2022/23 Est.</b>	<b>2023/24 Est.</b>	<b>2024/25 Est.</b>	<b>2025/26 Est.</b>	<b>2026/27 Est.</b>	<b>2027/28 Est.</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
CFR B/fwd												
Borrowing/Repayment												
Invest to Save*												
CFR C/fwd												
<b>Movement in CFR</b>												
Net financing requirement												
Less MRP & other financing												
<b>Movement in CFR</b>												

\* The cost of borrowing associated with this scheme will be offset by the income generated in accordance with the approved business case (see comment in 2.3)

2.8 **Indicator 3** – Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in

Financing capital expenditure i.e. the net interest cost and the provision to repay debt.



2.9 **Indicator 4** – Actual and estimates of the incremental impact

2.11 This indicator is showing the incremental impact of capital

<b>3) Ratio of financing costs to net revenue budget</b>	<b>2016/17 Actual</b>	<b>2017/18 Est.</b>	<b>2018/19 Est.</b>	<b>2019/20 Est.</b>	<b>2020/21 Est.</b>	<b>2021/22 Est.</b>	<b>2022/23 Est.</b>	<b>2023/24 Est.</b>	<b>2024/25 Est.</b>	<b>2025/26 Est.</b>	<b>2026/27 Est.</b>	<b>2027/28 Est.</b>
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total ratio												

of capital investment decisions on council tax. The calculation of this indicator is based upon the estimated amount of the capital programme that is to be financed from borrowing.

investment decisions along with the MRP policy as contained in Section 3.

2.10 The calculation is based on the interest assumptions for borrowing and MRP charges that have been included in the previous and this MTFS for the capital financing budget.

2.12 This indicator shows the incremental impact on the council tax base.

<b>(4) Incremental impact of capital investment decisions on Council Tax</b>	<b>2016/17 Actual</b>	<b>2017/18 Est.</b>	<b>2018/19 Est.</b>	<b>2019/20 Est.</b>	<b>2020/21 Est.</b>	<b>2021/22 Est.</b>	<b>2022/23 Est.</b>	<b>2023/24 Est.</b>	<b>2024/25 Est.</b>	<b>2025/26 Est.</b>	<b>2026/27 Est.</b>	<b>2027/28 Est.</b>
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Incremental change in capital financing budget between MTFS's on Band D Council Tax (£)												

### 3. Minimum Revenue Provision (MRP) Policy

- 3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).
- 3.2. CLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.
- 3.3. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.
- 3.4. The Council intends to make secured loans to third parties. These loans are only made after the Council's formal decision making process has been followed, which includes formal approval by the Interim Corporate Director: Resources. As part of the formal decision to grant the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment. The Council have approved the secured loans to three third parties which are Axiom Housing Association (Council - 8 October 2014), ECS Peterborough 1 LLP (Council - 17 December 2014) and the Housing Joint Venture (Jul 2016). The Council has held some preliminary discussions with Peterborough Regional College (PRC) regarding the possibility of the Council lending to them to invest in new facilities. These discussions are at a very early stage, but it is recommended that PRC are added to the list of organisations the Council can make secured loans to. This does not commit the Council to making such a loan, it simply means that the Council can consider this during the year. This could only proceed following an appropriate executive decision.
- 3.5. The Council participates in the Local Authority Mortgage Scheme (LAMS). During 2011/12 the Council deposited £1m with Lloyds, which was repaid in December 2016 and a further £1m during 2013/14 which is due to be repaid in 2018/19. Such deposits are treated as capital expenditure, as a loan to a third party. The CFR increased by the total of these indemnities. Operation of the Scheme sees these deposits returned in full at maturity, a period of five years, with interest paid annually. Once the deposit matures, and funds are returned to the Council, the funds are classed as a capital receipt (as it is a loan) and the CFR will reduce accordingly. As this is a temporary five year arrangement and the funds are anticipated to be returned in full, there is no MRP application.
- 3.6. Repayments for PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.
- 3.7. Below is a table summarising the MRP Policy adopted in 2016/17.

### Summary of the MRP Policy Adopted 2016/17

Age of Debt	Previous Method	Method Adopted
Pre 2007/08 debt (ie debt up to 31.03.2007)	Charged at historic 4%	Change the length over which the debt is paid – from budgeted 25 years (4%) to 42 years (2.38% - based on the actual weighted average of the Councils assets, so a direct link to asset base)
		Using the 2.38% in an annuity calculation rather than an equal instalment or reducing balance method
Supported Borrowing post 2007/08		As per above points - this debt is currently calculated on the same 4% basis
Unsupported borrowing 2007/08 & 2008/09	Charged in relation to asset life on equal instalment method	There are two years of debt that are calculated using the old equal instalment method. The Council moved from this methodology in 2009/10. Proposal to amend these elements of the calculation so that repayment of this debt to be based on annuity method also.
Unsupported borrowing Post 2008/09	Charged in relation to asset life on annuity method	Continue to use existing annuity methodology based on actual life of asset to which borrowing has been taken for (this is net of Invest To Save schemes).
Private Finance Initiative (PFI) - Finance Lease	Charged derived from using the PFI model	Change the length over which the debt is paid from 30 years as per contract life to 39 years per asset life. As part of this change in life apply on an annuity method calculation.
Other Finance Leases	Charged in relation to asset life on annuity method	Continue to use existing annuity methodology based on actual life of asset to which borrowing has been taken for.

#### 4. Treasury Management Strategy

##### 4.1. Treasury Management Policy

4.1.1. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's service requirements. This will involve both the management of cash flow and, where the capital programme requires, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.1.2. The Council's primary treasury management objectives are:

- a) to invest available cash balances with a number of high quality investment counterparties (see 4.7.13) over a Spread of maturity dates in accordance with the Council's lending list;
- b) to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible; and
- c) To seek to reschedule debt at the optimum time.

(5) Gross debt & capital financing requirement	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
<b>External Borrowing</b>												
Market Borrowing												
Repayment of borrowing												
Expected change in borrowing												
Other long-term liabilities												
<b>Gross Debt at 31 March</b>												
CFR												
<b>% of Gross Debt to CFR</b>												

##### 4.2 Current Treasury Position

4.2.1 **Indicator 5** - The Council's treasury position at 31 March 2017, with estimates for future years, are summarised below.

The table below shows the actual external borrowing (Gross Debt) against the CFR.

4.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.2.3 The Interim Corporate Director: Resources reports that the Council complied with this prudential indicator in the current

<b>(6) Operational Boundary</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Est. £m</b>	<b>2018/19 Est. £m</b>	<b>2019/20 Est. £m</b>	<b>2020/21 Est. £m</b>	<b>2021/22 Est. £m</b>	<b>2022/23 Est. £m</b>	<b>2023/24 4Est. £m</b>	<b>2024/25 Est. £m</b>	<b>2025/26 Est. £m</b>	<b>2026/27 Est. £m</b>	<b>2027/28 Est. £m</b>
Borrowing												
Other long term liabilities												
<b>Total</b>												

4.2.5 **Indicator 7** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by full Council.

4.2.6 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an

Year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this medium term financial strategy (MTFS).

4.2.4 **Indicator 6** - The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded.

option to control either the total of all Council's plans, or those of a specific Council, although this power has not yet been exercised.

4.2.7 The Council is asked to approved the following Authorised limit:

<b>(7) Authorised Limit</b>	<b>2016/17 Actual</b>	<b>2017/18 Est.</b>	<b>2018/19 Est.</b>	<b>2019/20 Est.</b>	<b>2020/21 Est.</b>	<b>2021/22 Est.</b>	<b>2022/23 Est.</b>	<b>2023/24 4Est.</b>	<b>2024/25 Est.</b>	<b>2025/26 Est.</b>	<b>2026/27 Est.</b>	<b>2027/28 Est.</b>

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Borrowing												
Other long term liabilities												
<b>Total</b>												

### 4.3 Prospects for Interest Rates

4.3.1 The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions. The Link Asset Services Forecast

for bank base rate (as at August 2017) and PWLB new borrowing (as at November 2017) is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Now	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20
Bank Rate View														
5yr PWLB Rate														
10yr PWLB Rate														
25yr PWLB Rate														
50yr PWLB Rate														
Budget Assumption														

4.3.2 The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate,

during the period 1 November 2017 to 31 October 2018. This results in the Council being able to benefit from reduced

interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

- 4.3.3 The MTFS assumes borrowing is taken at the 50 year period with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent as it mitigates some of the risk of PWLB rate rise.
- 4.3.4 Link Asset Services undertook its last review of interest rate forecasts on 7 November and will have gentle increases in Bank Rate during 2018 and onwards.
- 4.3.5 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

4.3.6 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. Has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

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

4.3.8 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

4.3.9 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

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

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

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

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

4.3.12 **Investment and Borrowing Rates**

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

4.3.14 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate



increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

4.3.15 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

#### **4.4 Borrowing Strategy**

4.4.1 The Council is currently maintaining an under-borrowed position, where CFR balance is greater than gross debt, see table 4.2. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.4.2 The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding
- Specific Schemes – eg School Extensions
- Rolling Capital Projects eg Enhancing current assets

4.4.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Interim Corporate Director: Resources will

monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.4.4 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

4.4.5 The MTFS is based on the following borrowing assumptions for the next ten years. However, the borrowing strategy is under constant review throughout the year as a result to changes in interest rates and borrowing opportunities. The proposed strategy for 2018/19 financial year is:

- a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.
- b) If there was a significant risk of a sharp fall in long and short term rates e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- c) If there was a significant risk of a much sharper rise in long and short term rates than currently forecast, perhaps rising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- d) Loans will primarily be arranged from the PWLB and other Local Authorities.
- e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

- f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

#### 4.5 New Borrowing Approaches to Be Considered:

- a) To achieve an even spread of loan maturities so that there is not an exceptional borrowing requirement in any future year. Rebalancing the current uneven profile will potentially allow interest savings given the current yield curve. Currently under 10 year money and over 35 year money is historically at a low interest cost.
- b) Maturing long term debt is replaced by new borrowing. To achieve long term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.
- c) The use of Capital receipts or S106 receipts to make minimum revenue provision is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.
- d) Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increase revenue cost on its debt charges.

- g) The Treasury Management Strategy is based on the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year. A review is being undertaken to put the Capital Programme on a more realistic footing.
- h) Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but will not receive the funds until it is required - 'forward borrow'. Once the capital programme for the next three years is finished a realistic view will be taken of low interest rates now to borrow early to fund the capital borrowing needed.

4.5.1 There are three debt treasury indicators which ensure the activity of the treasury function remains within certain limits. This manages risk and reduces the impact of any adverse movement in interest rates. The indicators are:

- **Indicator 8** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.
- **Indicator 9** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 4Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
<b>(8) Limits on fixed interest rates based on net debt</b>												
<b>% of fixed interest rate exposure</b>												
<b>(9) Limits on variable interest rates based on net debt</b>												
<b>% of variable interest rate exposure</b>												

- **Indicator 10** - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

<b>(10) Maturity Structure of borrowing</b>	<b>Upper Limit</b>
Under 12 months	40%
12 months to 2 years	40%
2 years to 5 years	80%
5 years to 10 years	80%
10 years and above	100%

#### **4.6 Policy on Borrowing in Advance of Need (Future Capital Expenditure)**

- 4.6.1 The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous opportunities in anticipation of future capital expenditure, which can be invested temporarily. The Council may also borrow in the day to day management of its cash flow operations or as an alternative to redeeming higher yielding investments.
- 4.6.2 Any decision to borrow in advance of need will be within

forward approved CFR estimates, and will be considered carefully to ensure value for money.

- 4.6.3 The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.
- 4.6.4 The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFs.
- 4.6.5 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

#### **4.7 Debt Rescheduling on Existing Debt Portfolio**

- 4.7.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates there may be potential to generate savings by switching from the existing long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Debt rescheduling will only be carried out on current debt portfolio as future borrowing will be carried out as per this strategy and over shorter periods of time.
- 4.7.2 The reasons for rescheduling will include:
  - the generation of cash savings and/or discounted cash flow savings;
  - helping to fulfil the treasury strategy;
  - Enhance the balance of the debt portfolio.

4.7.3 All rescheduling will be reported to the Audit Committee at the earliest opportunity.

#### **4.8 Municipal Bond Agency**

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

#### **4.7 Annual Investment Strategy – Annual Investment Policy**

- 4.7.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 4.7.2 The Council's investment priorities are the security of capital and the liquidity of investments. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 4.7.3 Investment instruments identified for use in the financial year are listed in Appendix 1 under the 'Specified' and 'Non-Specified' Investment categories. Counterparty limits will be as set through the Council's Treasury Management Practices.
- 4.7.4 Subject to appropriate due diligence, security and rate of return the council will lend to providers of Solar Energy facilities.

#### 4.7.5 **Investment Counterparty Selection Criteria and Investment Strategy**

4.7.6 As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

4.7.7 However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.7.8 The Interim Corporate Director: Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

4.7.9 The Council's minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds,

which are used for short term investments only, will use the Short Term credit ratings in the table shown within 4.8.13 if an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

4.7.10 In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades.

4.7.11 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services.

- If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria it will be removed from the Council's lending list immediately.
- In addition to the use of credit ratings the Council will be advised of information in movement in CDS's against the iTraxx (brand name for the group of credit default swap index products) benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

4.7.12 Sole reliance will not be placed on the use of Link Asset Service's advice. The Council will also use market data, market information, information on government support for banks and the credit ratings of that government support.

4.7.13 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, follows:

- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.
- All of the above would be subject to continuous credit rating reviews, specifically with regards to the credit rating methodology changes noted in 4.7.1.

4.7.14 Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 4.7.13 then the following strategy will be followed:

- With regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, no action will be taken with regards to funds held with Barclays, ie maximum of £5m in the call account
- If two or more credit rating agencies reduce their ratings only, as the Council will still require to use the Barclays accounts for transactional purposes, a maximum balance of £500k will be left overnight to prevent the account becoming overdrawn and incurring overdraft fees
- Seek advice from Link Asset Services

- The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point above.

The above approach has been developed following consideration of:

- that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity
- the significant impact, resource requirement, and risk exposure of changing bank provider
- the possible state and stability of the banking sector and viable alternative suppliers
- Local Authority Mortgage Scheme. Under this scheme the Council had placed funds of £2m with Lloyds Bank for a period of five years. The first tranche of £1m has matured and been returned to the Council, leaving £1m still on deposit. This is classified as being an indemnity arrangement and therefore accounted for as a capital expenditure transaction, rather than a treasury management investment. Therefore LAMS is outside the Specified/Non specified categories but is included in this Strategy for completeness. Any other counterparty used will fall outside the Specified/Non specified categories as per the reason stated above. Therefore the minimum credit criteria need not apply to the LAMS scheme.
- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd).

These banks can be included if they continue to be part nationalised and / or they meet the ratings below.

- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.

Agency	Short Term	Long Term
<b>Fitch</b>	F1	A
<b>Moody's</b>	P-1	Aa
<b>Standard &amp; Poor's</b>	A-1	A

- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Cambridgeshire and Peterborough Combined Authority
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

4.7.15 The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Appendix 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by the Interim Corporate Director: Resources. Approval will also be required if any new counterparties are added to the lending list.

4.7.16 Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Capita Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	The Council will not invest with these institutions

11) Interest Rate Exposure (Upper Limits)	2016/17 Actual £m	2017/18 Est. £m	2018/19 Est. £m	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m
Principal sums invested > 365 days												
Base Rate Forecast												

4.7.17 The proposed criteria for Specified and Non-Specified investments are shown in Appendix 1 for approval. During this time of significant economic uncertainty due regard will be taken of the selection criteria outlined in 4.7.13, when using the options outlined in Appendix 1.

4.7.18 Investment returns expectations - Bank Base Rate is forecast to remain unchanged at 0.25% before starting to rise from 2019/20. Bank Rate forecasts for financial year ends are:

4.7.19 **Indicator 11** - Upper limit for total principal sums invested for over 365 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear. These upper limits are to provide approved flexibility for future LAMS contributions.

4.7.20 At the end of the year, the Council will report on its investment activity as part of its Annual Treasury Report to the Audit Committee.

#### 4.8 Peterborough's Growth Delivery Project

Financial Year	Bank Base Rate	Forecast	
2018/19	0.63%	There is an upside risk to these forecasts (i.e. if increases in Bank Rate occurs sooner than forecast) if economic growth remains strong and unemployment falls faster than expected. However there is also a downside risk if the pace of growth falls back particularly if the Bank of England inflation forecasts for the rate of unemployment prove to be too optimistic.	4.7.21 The Interim
2019/20	0.88%		
2020/21	1.19%		
2021/22	1.19%		

Corporate Director: Resources may appoint external fund managers to access markets not available to the in-house treasury team, diversify the investment portfolio and to optimise investment income returns. Fund Managers will only be used if the Interim Corporate Director: Resources is satisfied the risk of loss is minimised and they can provide material out-performance when compared against comparative cash benchmarks. Fund Managers must comply with the Annual Investment Strategy.

A Joint Venture, Limited Liability Partnership (JV LLP) 50:50 owned and controlled by the Council and Lucent Peterborough Partnership SARL are working to create



commercially viable Project Plans. Once a Project Plan is approved by the JV LLP board it will create a Special Purpose Vehicle (SPV) to oversee the plan implementation.

- 4.8.1 As projects are developed the Council will sell sites previously earmarked for disposal at their current market value to the JV LLP for development. The Council will receive Loan Notes from the JV LLP in consideration. The Council may also receive loan notes in consideration for any other costs it incurs on behalf the JV LLP.
- 4.8.2 The first scheme, the redevelopment of the Fletton Quays site, is underway. The Council expects to receive the return on this scheme in 2018/19.

#### **4.9 Treasury Management Scheme of Delegation**

- 4.9.1 The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Annual Strategy.

Audit Committee / S151 Officer (Interim Corporate Director: Resources)

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.

- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Executive Director Resources) / Service Director Financial Services / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors.

**Specified and Non-Specified Investments****APPENDIX 1****Specified Investment:**

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short term or easy access to funds

- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see 4.7.9)

<b>APPROVED "SPECIFIED" INVESTMENTS</b>				
<b>Investment Type</b>	<b>Maximum Maturity period</b>	<b>Minimum Credit Criteria</b>	<b>Collective Limit £m</b>	<b>Individual Limit £m</b>
Debt Management Agency Deposit Facility	Currently only accepts deposits up to 6 months duration.	UK Government backed	N/A	75
Term deposits with UK Government & Local Authorities	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 1	6 months	Minimum ratings - F1(Fitch - short term) AAA (long term)	100	15
UK Government & Local Authority Stock Issues	6 months	Sovereign risk / high security although not credit rated	100	20
Term deposits & Certificates of Deposit with Banks Group 2	6 months	Minimum ratings – F1 (Fitch-short term) A (long term)	50	10
Deposit accounts with regulated UK building societies	6 months	Minimum ratings - F1 (Fitch short term) A (long term)	50	10
Money Market Funds	Repayable on call, without notice.	Minimum rating – AAA (Fitch)	50	10
Commercial Paper (short term obligations issued by banks, corporations & other issuers).	6 months	Minimum short term rating - F1 (Fitch) (Held by custodian)	10	10

<b>APPROVED "SPECIFIED" INVESTMENTS</b>				
<b>Investment Type</b>	<b>Maximum Maturity period</b>	<b>Minimum Credit Criteria</b>	<b>Collective Limit £m</b>	<b>Individual Limit £m</b>
Gilt & Bond Funds (open ended mutual funds investing in Gov. & corporate bonds)	Highly liquid, may be sold at any time.	Minimum rating - AAA-(Fitch, S&P A-1 etc.)	10	10
Reverse Gilt Repos (Gilts bought with commitment to sell on a specified date or on call, at agreed price)	6 months	UK Government backed (Held by custodian)	10	10
Treasury Bills	Maturities of up to 6 months Issued through a bidding process at a discount to face value	UK Government backed (Held by custodian)	10	10
Bonds issued by a financial institution guaranteed by UK Government	6 months	UK Government backed (Held by custodian)	10	10
Bonds issued by multilateral development banks	6 months	Minimum rating – AAA (Fitch, S&P A-1etc)	10	10

**Non-Specified Investment:**

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

<b>APPROVED "NON - SPECIFIED" INVESTMENTS</b>				
<b>Investment Type</b>	<b>Repayable / Maturity Period</b>	<b>Minimum Credit Criteria</b>	<b>Collective Limit £m</b>	<b>Individual Limit £m</b>
Term deposits with UK Government & Local Authorities	Maturities of 1 - 5 years	Sovereign risk / high security although not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings - F1(Fitch - short term) AAA (long term)	10	10
UK Government & Local Authority Stock Issues	Maturities of 1 - 10 years but tradable	Sovereign risk / high security although not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	Maturities of 1 - 5 years Certificates of Deposit are tradable	Minimum ratings – F1 (Fitch-short term) A (long term)	20	10
Deposit accounts with regulated UK building societies	Maturities of 1 – 5 years	Minimum ratings - F1 (Fitch short term) A (long term)	5	5
Foreign Government Stock Issues (priced in £ Sterling)	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) (Held by custodian)	5	5
Term deposits with UK building societies without formal credit ratings	Maturities of up to 1 year	Financial position assessed by Interim Corporate Director: Resources	5	5
Bonds issued by a financial institution	Maturities of 1 - 10 years	UK Government backed Minimum rating –	5	5

<b>APPROVED "NON - SPECIFIED" INVESTMENTS</b>				
<b>Investment Type</b>	<b>Repayable / Maturity Period</b>	<b>Minimum Credit Criteria</b>	<b>Collective Limit £m</b>	<b>Individual Limit £m</b>
guaranteed by UK Government	but tradable	AAA (Fitch, S&P etc.)		
Bonds issued by multilateral development banks	Maturities of 1 - 10 years but tradable	Minimum rating - AAA (Fitch, S&P A-1etc)	5	5
Floating Rate Notes (fixed term but interest rate varies quarterly)	Maturities of 1 - 5 years but tradable	Financial position assessed by Interim Corporate Director: Resources. Requires capital or revenue financing as share or loan capital.	5	5
Bonds issued by corporate issuers other than sovereign bonds	Maturities of 1 - 10 years but tradable	Minimum rating – AAA (Fitch, S&P A-1etc) Requires capital or revenue financing as share or loan capital	5	5

**Explanation of Credit Ratings**

**APPENDIX 2**

Agency	Short Term	Long Term
<b>Fitch</b>	<b>F1</b> -Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a “+” may be added to denote any exceptionally strong credit feature.	<b>A</b> -High credit quality. ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
<b>Moody’s</b>	<b>P-1</b> -superior ability to repay short-term debt obligations	<b>Aa</b> -high quality and are subject to very low credit risk
<b>Standard &amp; Poor’s</b>	<b>A-1</b> -The obligor’s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor’s capacity to meet its financial commitment on these obligations is extremely strong.	<b>A</b> -more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor’s capacity to meet its financial commitment on the obligation is still strong.

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 9
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly - Interim Corporate Director of Resource	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Service Director - Financial Services	Tel. 384564

## IMPACT OF CHANGED STATUTORY DEADLINE FOR APPROVAL OF STATEMENT OF ACCOUNTS

R E C O M M E N D A T I O N S	
<b>FROM:</b> Marion Kelly - Interim Corporate Director of Resources	<b>Deadline date:</b> 20 November 2017
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> <li>Approve proposed change to Audit Committee dates and work programme to accommodate the changed statutory deadline for approval of the Statement Of Accounts.</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted to Audit Committee following a referral from the S151 Finance Officer.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to receive and approve proposed change to Audit Committee dates and work programme to accommodate the changed deadline for approval of the Statement Of Accounts.
- 2.2 This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.16

*To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.*

### 3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	n/a
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### 4. BACKGROUND AND KEY ISSUES

- 4.1 The Account and Audit Regulations 2015 came into force 1st April 2015. Most of its provisions applied to financial years beginning on, or after 1st April 2015, but some were subject to transitional arrangements which delayed their application until financial years beginning on, or after 1st April 2017.

- 4.2 A report on the application of these changes went to 21 March 2016 Audit Committee and most of the changes were adopted for 2015/16 Statement of Accounts.
- 4.3 The changes which apply from financial years beginning on, or after 1st April 2017 relate to the earlier publication of the draft and final accounts. The current and new dates are set out in the table below:

<b>Activity</b>	<b>Current deadline</b>	<b>New deadline</b>	<b>Reduction in time</b>
<p><b>Draft Accounts</b></p> <p>Deadline for the Corporate Director Resources (as the Council's Chief Finance Officer) to sign and date the Statement of Accounts and confirm that it presents a true and fair view of:</p> <ul style="list-style-type: none"> <li>• The financial position of the Council at the end of the financial year to which it relates; and</li> <li>• The Council's income and expenditure for that year.</li> </ul>	30 June	31 May	30 days
<p><b>Audited Accounts</b></p> <p>Deadline for:</p> <ul style="list-style-type: none"> <li>• Approval of the Statement of Accounts by resolution by the Audit Committee;</li> <li>• Certification of the Statement of Accounts by the Audit Committee Chairman;</li> <li>• Re-certification of the Statement of Accounts by the Corporate Director: Resources;</li> <li>• Publication of the Statement of Accounts.</li> </ul>	30 September	31 July	62 days
<b>Available Audit Time</b>	92 days	61 days	31 days

- 4.4 The 21 March 2016 report highlighted that Audit Committee meetings would need to change as a result of these dates and that the time between the official constitution of the Audit Committee and date for the publication of the draft accounts made it impractical for Audit Committee approval prior to the publication of the draft accounts and commencement of audit. The requirement for this had been removed by the Account and Audit (England) Regulations 2011, but the Council had continued to do this as this was best practice.
- 4.5 The report recommended that to adapt to the changes an Audit Committee meeting would be held early June to receive and comment on the accounts whilst the public inspection period and audit are underway. This meeting would also receive the outturn report. A meeting could then be held towards the end of July to receive and formally approve the accounts in line with the new statutory deadline.
- 4.6 Following further consideration and taking into account the experience of both officers and external auditors working to the new deadlines for 2016/17 Statement of Accounts, the recommended approach has been modified to:
- the Annual Governance Statement needs to be approved prior to the Statement of Accounts, as this is now being approved at the same meeting, the draft Annual Governance Statement will be circulated to Audit Committee members mid May to enable early review.
  - once the draft accounts have been reviewed by the Interim Corporate Director of Resource, they will be circulated to Audit Committee members for comment prior to publication of the draft accounts by 31st May. This is expected to be w/c 14 May.
  - the June Audit Committee meeting to be moved to mid July (16th July for 2018/19 municipal year). This meeting would receive and formally approve the Annual Governance

Statement and Statement of Accounts and receive the External Auditor report and Outturn report.

4.7 This approach enables Audit Committee members to comment on the Statement of Accounts prior to publication and removes the need for an additional meeting. Members would be able to read the Outturn Report prior to the July Audit Committee as it will be published as part of the Cabinet papers (the outturn report is currently expected to go to 4 June Cabinet for 2018/19 municipal year).

4.8 The Statement of Accounts and External Auditor Report will no longer need be on the September Audit Committee Agenda.

## **5. CONSULTATION**

5.1 Officers who had reports on the 2017/18 work programme June meeting have been consulted about the proposed changes.

## **6. ANTICIPATED OUTCOMES OR IMPACT**

6.1 That the audit committee dates and work programme will enable the consideration and approval of the Statement Of Accounts in lines with statutory deadlines.

## **7. REASON FOR THE RECOMMENDATION**

7.1 It is a statutory requirement under the Accounts and Audit Regulations 2015.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 Alternative approaches and the reason for their rejection include:

- The approach recommended to 21 March 2016 Audit Committee. This would add an extra meeting into the calendar which in reality would not be required and would not give Audit Committee the opportunity to comment on the draft accounts before they are published.
- Audit Committee meeting to receive the draft accounts before publication. This would be impractical as the meeting would need to be before 31st May, and this would not leave suitable time following official constitution of the committee to train new members. Also producing the accounts for the papers deadline for the meeting would mean cutting timescales for the production of the accounts even further than the changed statutory deadline.
- Approving the accounts at the current June Audit Committee meeting date. EY would not have completed their on site visit and the amount of audit work likely to be outstanding at this time. There would not be sufficient assurance that no changes would be required to the accounts which would necessitate a further emergency audit committee meeting to be called to re-approve the accounts within the statutory deadline.
- Retaining the current June Audit Committee meeting and adding an extra meeting July for the approval of the accounts. This would add an extra meeting into the calendar.
- Putting draft accounts on the website for review before presentation to Committee for approval before the 31st July deadline. This would not give Audit Committee the opportunity to comment on the draft accounts before they are published.

## **9. IMPLICATIONS**

### **Financial Implications**

9.1 None

### **Legal Implications**

9.2 None

## **Equalities Implications**

9.3 None

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Account and Audit Regulations 2015  
Audit Committee Work Programme  
Report on Account and Audit Regulations 2015 to 21 March 2016 Audit Committee

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 12
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Councillor Aitken, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296334

## FEEDBACK REPORT

### RECOMMENDATIONS

It is recommended that Audit Committee:

1. Note the Feedback Report and work completed since the last meeting

#### 1. ORIGIN OF REPORT

- 1.1 This is a standard report to Audit Committee which forms part of its agreed work programme.

#### 2. PURPOSE AND REASON FOR REPORT

- 2.1 This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

#### 3. IMPLICATIONS

##### Financial Implications

- 3.1 There are none.

##### Legal Implications

- 3.2 There are none.

##### Equalities Implications

- 3.3 There are none.

#### 4. APPENDICES

- 4.1 Appendix A - Feedback report

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AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2017 - APRIL 2018

AGENDA ITEM	ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	ACTION RAISED	SIGN OFF DATE
Treasury Management Mid-Year Update	To approve the use of Loans as a form of Investment to organisations delivering services for the Council	Peter Carpenter	Agreed at Full Council 11 October 2017	Recommendations to be agreed by Council	11 October 2017
Treasury Management Mid-Year Update	To prepare a briefing note for Committee Members on the use of loans and what has currently been issued	Peter Carpenter/Paul Cook	To be circulated to members	Briefing note to be completed	Before end of year

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<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 13
<b>20 NOVEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Councillor Aitken, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councilor Seaton, Resources Portfolio Holder	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296 334

## **WORK PROGRAMME 2017/18**

### **RECOMMENDATIONS**

It is recommended that the Audit Committee:

1. Notes and agrees the Work Programme for the municipal year 2017/18.

#### **1. ORIGIN OF REPORT**

- 1.1 This is a standard report to the Audit Committee which forms part of its agreed work programme. This report provides details of the Draft Work Programme for the following municipal year.

#### **2. PURPOSE AND REASON FOR REPORT**

- 2.1 The Work Programme is based on previous year's agendas. The programme can be refreshed throughout the year in consultation with senior officer and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.
- 2.2 Training for members on specific aspects of the Audit Committee agenda are available throughout the year and will be arranged on request and will take place on a separate day to that of the committee meeting.

#### **3. IMPLICATIONS**

##### **Financial Implications**

- 3.1 There are none

##### **Legal Implications**

- 3.2 There are none

##### **Equalities Implications**

- 3.3 There are none

#### **4. APPENDICES**

- 4.1 Appendix A - Work Programme 2017/18



## APPENDIX A

DATE: 26 JUNE 2017			
		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Dan Kalley	
	Internal Audit: Annual Audit Opinion	Internal Audit Steve Crabtree	To receive, consider and endorse the annual Audit Opinion of Internal Audit for the year ended 31 March 2017.
	Investigations Team Annual Report 2016 / 2017	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2017
	Draft Annual Governance Statement	Internal Audit Steve Crabtree	To receive, consider and endorse the draft Annual Governance Statement for the year ended 31 March 2017
	Capital and Treasury Outturn 2016 / 2017	Finance Marion Kelly	To receive, consider and endorse the Capital and Treasury outturn 2016/2017
	Draft Statement of Accounts 2016 / 2017	Finance Marion Kelly	To receive, consider and comment on the draft Statement of Accounts for the year ended 31 March 2017
	Audit Plan Update	EY	To receive an update on the Audit Plan from EY, to review their proposed approach and scope for the 2016/17 audit in accordance with requirements, and to ensure that the EY audit is aligned with the Committee's service expectations.
	Fees report	Finance Paul Cook	To approve the fees for the Municipal year 2017/2018

	Update on Constitution	Dem Services Pippa Turvey	To receive an update on changes to the PCC Constitution.
	<b>INFORMATION AND OTHER ITEMS</b>		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Marion Kelly	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Dan Kalley	
Standard	Draft Work Programme 2017 / 2018	Democratic Services Dan Kalley	

#### **OTHER POSSIBLE AGENDA ITEMS**

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

**DATE: 25 SEPTEMBER 2017**

		<b>Section / Lead</b>	<b>Description</b>
Standard	Apologies for Absence		

Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Dan Kalley	
	Audit of Statement of Accounts To Those Charged with Governance (ISA260)	Finance Pete Carpenter & EY	To receive the final Statement of Accounts for the year ended 31 March 2017 incorporating the Annual Governance Statement together with the annual report to those charged with governance following their scrutiny by External Audit.
	Response to Public sector Audit Appointment's Proposal to Appoint Ernst & Young LLP as external Auditors for 5 Years from 2018/19	Finance Pete Carpenter	To appoint E&Y as external auditors for 5 years from 2018/19
	Treasury Management	Finance Pete Carpenter	To receive an update on the policy and effectiveness of treasury management
	<b>INFORMATION AND OTHER ITEMS</b>		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required. To also include the outcome of a recent Surveillance Commission Inspection.
	Approved Write-Offs Exceeding £10,000 - None	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Dan Kalley	
Standard	Work Programme 2016 / 2017	Democratic Services Dan Kalley	

#### OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Bens Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

**DATE: 20 NOVEMBER 2017**

		<b>Section / Lead</b>	<b>Description</b>
Standard	Apologies for Absence		
Standard	Declarations of Interest		
Standard	Minutes of previous Meeting	Democratic Services Dan Kalley	
	Internal Audit: Mid Year Progress Report	Internal Audit Steve Crabtree	To receive an update on progress against the Annual Audit Plan together with details of any concerns
	Risk Management: Strategic Risks	Governance Kevin Dawson	To receive details of the strategic risks impacting on the Council and the mitigating actions to address these.
	Treasury Management: Strategy 2018 - 2028	Finance Pete Carpenter	For Members to comment on the Treasury Management Strategy
	External Audit: Annual Audit Letter	EY	To receive and approve the External Annual Audit Letter identified as part of their audit works
	Ernst & Young Progress Report on 2017/18 Audit	EY	To receive an update on progress against 2017/18 Audit
	Impact of Changed Statutory Deadline for Approval of Statement of Accounts	Finance Pete Carpenter	To approve proposed change to Audit Committee dates and work programme to accommodate the changed statutory deadline for approval of the Statement Of Accounts.

	<b>INFORMATION AND OTHER ITEMS</b>		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Dan Kalley	
Standard	Work Programme 2017 / 2018	Democratic Services Dan Kalley	

#### OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

**DATE: 12 FEBRUARY 2018**

		Section / Lead	Description
Standard	Apologies for Absence		

Standard	Declarations of Interest		
Standard	Minutes of previous meeting	Democratic Services Dan Kalley	
	External Audit plan	EY	To receive and approve the Draft External Audit Plan
	Grants report Certification	EY and Finance	
	Internal Audit: Draft Internal Audit Plan 2017 / 2018	Internal Audit Steve Crabtree	To receive and approve the Internal Audit Plan 2017 / 2018
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	<b>INFORMATION AND OTHER ITEMS</b>		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.



	Member Dispensations on Allowances Rules	Governance	To consider a report following a recommendation made by members in regards to the dispensations granted.
Standard	Feedback report	Democratic Services Dan Kalley	
Standard	Work Programme 2017 / 2018	Democratic Services Dan Kalley	

#### OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

**DATE: 26 MARCH 2018**

		Section / Lead	Description
Standard	Apologies for Absence		
Standard	Declarations of Interest		

Standard	Minutes of previous Meeting	Democratic Services Dan Kalley	
	Risk Management: Strategic Risks	Governance Kevin Dawson	To receive an update on the strategic risks for the Council
	Draft Annual Audit Committee Report	Democratic Services Dan Kalley	To receive the Draft Annual Audit Committee Report prior to submission to Council
	<b>INFORMATION AND OTHER ITEMS</b>		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
Standard	Feedback report	Democratic Services Dan Kalley	
Standard	Work Programme 2017 / 2018	Democratic Services Dan Kalley	

#### OTHER POSSIBLE AGENDA ITEMS

	Governance Reports	Governance Ben Stevenson	Major changes to governance arrangements, policies and procedures requiring approval. Examples would include updates to Financial Regulations or Contract Rules.
	Member Reports	Governance Ben Stevenson	Specific reports relating to the Members Code of Conduct and / or the Hearing Panel (sub-committee to the Audit Committee)

**To be rescheduled:**

		<b>Section / Lead</b>	<b>Description</b>

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