



**WATFORD
BOROUGH
COUNCIL**

AUDIT COMMITTEE

Wednesday, 7th December, 2016

7.00 pm

Town Hall, Watford

Publication date: 29 November 2016

Contact

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Democracy and Governance on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

Welcome to this meeting. We hope you find these notes useful.

Access

Access to the Town Hall after 5.15 pm is via the entrance to the Customer Service Centre from the visitors' car park.

Visitors may park in the staff car park after 4.00 p.m. This is a Pay and Display car park. From 1 April 2016 the flat rate charge is £2.00.

The Committee Rooms are on the first floor of the Town Hall and a lift is available. Induction loops are available in the Committee Rooms and the Council Chamber.

Fire / Emergency Instructions

In the event of a fire alarm sounding, vacate the building immediately following the instructions given by the Democratic Services Officer.

- Do not use the lifts
- Do not stop to collect personal belongings
- Go to the assembly point at the Pond and wait for further instructions
- Do not re-enter the building until authorised to do so.

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An audio recording may be taken at this meeting for administrative purposes only.

Committee Membership

Councillor D Scudder (Chair)
Councillor T Williams (Vice-Chair)
Councillors S Cavinder, Asif Khan and B Mauthoor

Agenda

Part A - Open to the Public

1. Apologies for Absence/Committee Membership

2. Disclosure of Interests (if any)

3. Minutes

The minutes of the meeting held on 29 September 2016 to be submitted and signed.

Copies of the minutes of this meeting are usually available seven working days following the meeting.

(All minutes are available on the Council's [website](#).)

4. The Role of Audit Committee

Discussion on the role of the Audit Committee in

- Corporate Governance
- Risk Management
- with the work of external audit

5. Requests made under the Freedom of Information Act 2000 (Pages 5 - 20)

Report of the Head of Democracy and Governance

6. Annual Governance Statement Update (Pages 21 - 24)

Report of the Head of Finance (shared services)

7. External Auditor's Annual Audit Letter 2015/16 (Pages 25 - 52)

Report of the Head of Finance (shared services) and external auditor

8. Shared Internal Audit Service - Internal Audit Progress Report (Pages 53 - 104)

Report of the Head of Finance (shared services) and the Shared Internal Audit Service

9. Appointment of Auditors (Pages 105 - 112)

Report of the Head of Finance (shared services)

This report will also be presented to Council in January.

10. Committee Work Programme (Pages 113 - 116)

Report of the Head of Finance (shared services)

11. Treasury Management Mid-year report 2016/17 (Pages 117 - 124)

Report of the Finance Managers

12. Treasury Management Report 2017/18 (To Follow)

Report of the Head of Finance (shared services)

PART A

Report to: Audit Committee
Date of Meeting: 7 December 2016
Report of: Head of Democracy and Governance
Title: Requests made under the Freedom of Information Act 2000

1. **Summary**

This is a half year report of requests made under the Freedom of Information Act 2000.

From 1 April to 30 September 2016 the Council received 236 requests of which 20 were replied to outside of the required time. A list of the requests is attached at appendix 1

2. **Recommendations**

To note the contents of this report.

Contact Officer:

For further information on this report please contact: Carol Chen
telephone extension: 8350 e-mail: carol.chen@watford.gov.uk

Report approved by Managing Director

3.0 **Detailed Proposal**

- 3.1 The Freedom of Information Act 2000 came fully into force on 1st January 2005. As a public authority we are obliged to answer written requests for information under the Act within 20 working days
- 3.2 This report covers the periods 1 April to 30 September 2016.
- 3.3 In this period the Council recorded receiving 236 requests for information under the Act of those 20 were replied to outside of the statutory 20 working days.
- 3.4 The requests have been varied. Appendix 1 gives a brief summary of each request.

3.5 Members will note that there are a number of requests with no reference number this is due to the Lagan E-forms not being available until May.

4.0 Implications

4.1 Financial

The Shared Director of Finance comments that this report indicates that information is found using existing staff resources. If, in the future, the requests increase in number and/or complexity then it may become necessary to review this situation.

4.2 Legal Issues (Monitoring Officer)

The Head of Democracy and Governance comments that ongoing training continues to be provided across the council to ensure officers are aware of the Council's responsibilities under the Act

4.3 Staffing

Requests are currently being managed within existing resources

4.4 Accommodation

No implications

4.5 Equalities

No implications

4.6 Community Safety

No implications

4.7 Sustainability

No implications

Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Request not replied to within statutory time limit	2	2	4
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

Appendix

Appendix 1 – Summary of FOI requests April –September 2016

Background papers:

None

FOI Requests (April 1 2016 - September 30th 2016)

Total - 236

Category codes:

I (Individual no address/not WBC resident) **IWB** (individual WBC resident) **C** (campaign group) **M** (Media) **O** (Organisation)

SERVICE & No.OF REQUESTS RECEIVED	REASON FOR REQUEST	DATE RECEIVED	DUE DATE	RESPONDED WITHIN TIMESCALE? (Y/N)	INFORMATION PROVIDED? (Y/N)	CUSTOMER ADVISED ON ALTERNATIVE LOCATION OF INFORMATION (Y/N)	Category (Individual, Organisation, Media, Campaign Group, Individual Watford Resident)	CAT Code
Community & Customer Services (82)								
	With no next of kin	05.04.16	04.05.16	YES	YES	NO	Individual	I
	With no next of kin	05.04.16	04.05.16	YES	YES	NO	Individual	I
	Licenses issued under DWA Act 1976	07.04.16	06.04.16	YES	YES	NO	Individual	I
	Sex Establishment Licences	12.04.16	11.05.16	YES	YES	NO	Media	M
	Details of prosecutions undertaken by your authority for life, escalator, stairlift, platform lift etc..	11.04.16	10.04.16	YES	YES	NO	Organisation	O
	Selective Landlord Licensing Scheme	13.04.16	12.04.16	YES	YES	NO	Organisation	O
Page 7	CHP & District Heating Plans	14.04.16	13.05.16	YES	YES	NO	Organisation	O
	How much spent on housing 'statutory homeless households'	15.04.16	16.04.16	YES	YES	NO	Media	M
	With no next of kin	15.04.16	16.04.16	YES	YES	NO	Media	M
	Health/Hygiene report for Watford's Vicarage Road Stadium	15.04.16	16.04.16	YES	YES	NO	Individual	I
	Statistics on homeless 16-24 year olds	26.04.16	25.05.16	NO	YES	NO	Organisation	O
	Zoo Licence	04.05.16	02.06.16	YES	YES	NO	Organisation	O
	With no next of kin	04.05.16	02.06.16	YES	YES	NO	Individual	I
	With no next of kin	12.05.16	10.06.16	YES	YES	NO	Individual	I
	With no next of kin	14.05.16	13.06.16	YES	YES	NO	Individual	I
	Contact Centre Information	19.05.16	17.06.16	YES	YES	NO	Individual	I
							Organisation	O
	Public Space Protection Orders	20.05.16	20.06.16	YES	YES	NO	Organisation	O
	Research on social housing allocations policy	25.05.16	23.06.16	YES	YES	NO	Organisation	O
	Public Health Funerals	27.05.16	27.06.16	YES	YES	NO	Individual	I
	Public Health Funerals	10.06.16	08.07.16	YES	YES	NO	Organisation	O
				YES			Organisation	O
	Heat Network	13.06.16	11.07.16		YES	NO	Organisation	O
	With no next of kin	15.06.16	13.07.16	YES	YES	NO	Individual	I
	Fly Tipping	07.06.16	05.07.16	YES	YES	NO	Media	M
	Abandoned Vehicles on Private Land	07.06.16	05.07.16	YES	YES	NO	Organisation	O
	Dog Fouling	07.06.16	05.07.16	YES	YES	NO	Organisation	O

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Community & Customer Services (82)								
	Residential Park Home Sites	09.06.16	07.07.16	YES	YES	NO	Organisation	O
	Stray Dog Data	16.06.16	14.07.16	YES	YES	NO	Organisation	O
	PRS Locally on electrical safety	16.06.16	14.07.16	NO	YES	NO	Organisation	O
	Mental health services for rough sleepers	16.06.16	14.07.16	NO	YES	NO	Organisation	O
	Public Health Funerals	17.06.16	15.07.16	YES	YES	NO	Individual	I
	List of Food Businesses	23.06.16	21.07.16	YES	YES	NO	Individual	I
	Call/ Contact Centre info	27.06.16	25.07.16	YES	YES	NO	Organisation	O
	Digital Transformation in Local Government	27.06.16	25.07.16	YES	YES	NO	Individual	I
	With no next of kin	27.06.16	25.07.16	YES	YES	NO	Individual	I
	With no next of kin	28.06.16	26.07.16	YES	YES	NO	Individual	I
	Housing	30.06.16	28.07.16	NO	YES	NO	Organisation	O
	APG budget and title deeds	06.07.16	03.08.16	YES	YES	NO	Individual	I
	Taxi drivers with criminal convictions	06.07.16	03.08.16	YES	YES	NO	Media	M
	Dog Fouling	08.07.16	05.08.16	YES	YES	NO	Organisation	O
	Male Domestic Violence	08.07.16	05.08.16	YES	YES	NO	Media	M
Page 8	Residential addresses and age of each property	11.07.16	08.08.16	YES	YES	NO	Organisation	O
	Use of interim/temporary Managers etc	12.07.16	09.08.16	YES	YES	NO	Individual	I
	Verdana Ct and Lucida Ct, Whippendell Rd	14.07.16	11.08.16	YES	YES	NO	Organisation	O
	Dangerous Wild Animals Act	15.07.16	12.08.16	YES	YES	NO	Organisation	O
	Licensed dog Breeding Establishments	15.07.16	12.08.16	YES	YES	NO	Individual	I
	With no next of kin	18.07.16	15.08.16	YES	YES	NO	Individual	I
	Dog Control Orders	21.07.16	18.08.16	YES	YES	NO	Organisation	O
	FPNs for smoking in cars carrying children	22.07.16	18.08.16	YES	YES	NO	Media	M
	Information on homelet scheme	28.07.16	25.08.16	YES	YES	NO	Individual	I
	Accommodation for elderly people	28.07.16	25.08.16	YES	YES	NO	Individual	I

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Community & Customer Services (82)								
	Register of Food Businesses	29.07.16	26.08.16	YES	YES	NO	Organisation	O
	CSC info/opening hours etc	29.07.16	26.08.16	YES	YES	NO	Organisation	O
	With no next of kin	01.08.16	30.08.16	YES	YES	NO	Individual	I
	Public Space Protection Orders	04.08.16	02.09.16	YES	YES	NO	Media	M
	Food businesses registered with the Council	04.08.16	02.09.16	YES	YES	NO	Media	M
	Most recent asbestos survey report conducted by DfE	10.08.16	08.09.16	NO	Awaiting details from third party - email sent.	NO	Individual	I
	Air Pollution and schools	18.08.16	16.09.16	YES	YES	NO	Organisation	O
	Wheelchair accessible housing	18.08.16	16.09.16	YES	YES	NO	Organisation	O
	Rent to mortgage scheme	18.08.16	16.09.16	YES	YES	NO	Organisation	O
	Disabled facilities grants	19.08.16	19.09.16	YES	YES	NO	Organisation	O
	Boarding Establishments	23.08.16	21.09.16	YES	YES	NO	Organisation	O
	Pet Shops Licences	23.08.16	21.09.16	YES	YES	NO	Organisation	O
	With no next of kin	23.08.16	21.09.16	YES	YES	NO	Individual	I
	Late night Levy	24.08.16	22.09.16	NO	YES	NO	Individual	I
	With no next of kin	25.08.16	23.09.16	YES	YES	NO	Individual	I
	Number of families provided accommodation under the Children's Act	25.08.16	23.09.16	YES	YES	NO	Individual	I
	Noise complaints raised for Comet Close, watford. WD25 7AW	26.08.16	26.09.16	YES	YES	NO	Individual Watford Resident	IWB
	Private Hire Driver procedures	31.08.16	28.09.16	YES	YES	NO	Organisation	O
	Enviromental Regulations	06.09.16	04.10.16	NO	YES	NO	Media	M
	Pet Shops Licences	10.09.16	10.10.16	YES	YES	NO	Organisation	O
	Smoking Ban	12.09.16	10.10.16	YES	YES	NO	Media	M
	Domestic Violence data 2005-2016	13.09.16	11.10.16	YES	No - Clarification e-mail sent. No response.	NO	Media	M
	Hygiene Report for Watford Football Club	14.09.16	12.10.16	YES	YES	NO	Media	M
	Public Health Funerals	16.09.16	14.10.16	YES	YES	NO	Organisation	O
	With no next of kin	16.09.16	14.10.16	YES	YES	NO	Individual	I

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Community & Customer Services (82)								
	Public Health Funerals	23.09.16	21.10.16	YES	YES	NO	Organisation	O
	With no next of kin	23.09.16	21.10.16	YES	YES	NO	Individual	I
	Public Health Funerals	23.09.16	21.10.16	YES	YES	NO	Organisation	O
	Register of Food Businesses	27.09.16	25.10.16	YES	YES	NO	Organisation	O
	Seizing of Stray Dogs	29.09.16	27.10.16	YES	YES	NO	Organisation	O
	With no next of kin	30.09.16	28.10.16	YES	YES	NO	Individual	I
	Number of families provided accommodation under the Children's Act	30.09.16	28.10.16	YES	YES	NO	Organisation	O

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Corporate & Client Services (15)								
	Use of Herbicides	21.04.16	20.05.16	YES	YES	NO	Organisation	O
	Garden waste charges	29.04.16	31.05.16	YES	YES	NO	Individual	I
	Recycling targets	11.05.16	09.06.16	YES	YES	NO	Individual	I
	Fleet contracts - to be reallocated to Client services	09.06.16	07.07.16	YES	YES	NO	Individual	I
	Assaults on refuse Collectors (annual request)	15.06.16	13.07.16	YES	YES	NO	Media	M
	Dry recyclables	16.06.16	14.07.16	YES	YES	NO	Individual	I
	Vehicle dimensions	26.06.16	25.07.16	NO	YES	NO	Organisation	O
	Recycling	17.07.16	15.08.16	NO	YES	NO	Individual	I
	Fleet & contracts	18.07.16	15.08.16	YES	YES	NO	Organisation	O
	Bin size & collection times	29.07.16	26.08.16	YES	YES	NO	Media	M
	Social media expenditure	02.08.16	31.08.16	YES	YES	NO	Media	M
	Recycling	04.08.16	02.09.16	YES	YES	NO	Organisation	O
	Kerbside recycling	26.08.16	26.09.16	YES	YES	NO	Organisation	O
	Advice on recycling	12.09.16	10.10.16	YES	YES	NO	Organisation	O
	Tree cutting	26.09.16	24.10.16	YES	YES	NO	Individual	I

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Democracy & Governance (20)								
	Info on illegal sale of knives	05.04.16	04.05.16	YES	NO	Yes - HCC	Organisation	O
	Overseas voters	09.05.16	07.06.16	NO	YES	NO	Media	M
	Procurement ICT Service Desk	18.05.16	16.06.16	YES	YES	NO	Organisation	O
	Successful contractor	19.05.16	17.06.16	YES	YES	NO	Individual	I
	Spend on external law firms and barristers	24.05.16	22.06.16	YES	YES	NO	Individual	I
	Framework Agreement	25.05.16	23.06.16	YES	YES	NO	Individual	I
	Suppliers/contractor info	27.05.16	27.06.16	YES	YES	NO	Organisation	O
	Property enquiry	02.06.16	30.06.16	YES	YES	NO	Individual	I
	Care visits	03.06.16	01.07.16	YES	YES	NO	Organisation	O
	Asbestos Consultancy Services	13.06.16	11.07.16	YES	YES	NO	Organisation	O
	Direct labour organisation query	30.06.16	28.07.16	YES	YES	NO	Individual	I
	IER and the Referendum	04.07.16	01.08.16	YES	YES	NO	Individual	I
	Referendum results	05.07.16	02.08.16	YES	NO	NO	Media	M
Page 12	Elections questions	06.07.16	03.08.16	YES	YES	NO	Organisation	O
	Civic receptions	12.07.16	09.08.16	YES	YES	NO	Media	M
	Councillors clothing	12.07.16	09.08.16	YES	NO	NO	Media	M
	Procurement Leisure and Outdoor sports	10.08.16	08.09.16	YES	YES	NO	Organisation	O
	Procurement team questions	11.08.16	09.09.16	YES	YES	NO	Organisation	O
	Contractor info	19.09.16	17.10.16	YES	YES	NO	Organisation	O
	CPO's	20.09.16	18.10.16	YES	YES	NO	Individual	I

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Finance (1)	Local authority insurance	29.04.2016	31.05.16	NO	YES	NO	Individual	I

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HR (12)								
	Agency staff usage through Comensura	17.05.16	15.06.16	YES	YES	NO	Organisation	O
	Headcount/turnover/sickness	25.05.16	23.06.16	YES	YES	NO	Organisation	O
	Overpayments	09.06.16	07.07.16	YES	YES	NO	Individual	I
	Bullying/Harassment	20.06.16	18.07.16	YES	YES	NO	Individual	I
	Structure chart for commissioned services	24.06.16	22.07.16	YES	YES	NO	Organisation	O
	Training	07.07.16	04.08.16	YES	YES	NO	Individual	I
	Contact details for the most senior member of staff who deals with professional development	15.07.16	12.08.16	YES	YES	NO	Organisation	O
	Recruitment contracts	15.07.16	12.08.16	YES	YES	NO	Organisation	O
	Alcohol testing	22.07.16	19.08.16	YES	YES	NO	Individual	I
	Pension query	26.07.16	23.08.16	YES	NO	Yes - sent to LPFA.	Organisation	O
	Bullying/Harassment	28.07.16	25.08.16	YES	YES	NO	Individual	I
	Single manning / lone working	05.08.16	05.09.16	YES	YES	NO	Individual	I

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IT (2)								
	Ransomware Virus Scam	28.07.16	25.08.16	YES	YES	NO	Media	M
	Disaster recovery	30.08.16	27.09.16	YES	YES	NO	Individual	I

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Multiple (16)								
	Mobile Phone Contracts	06.04.16	05.05.16	YES	YES	NO	Individual	I
	Usage of temporary managers	20.06.16	18.07.16	NO	YES	NO	Individual	I
	Plans and Strategies	23.06.16	20.07.16	YES	YES	NO	Individual	I
	Contract photocopiers/Capita	28.06.16	26.07.16	YES	YES	NO	Organisation	O
	Staff and Data Protection breaches	16.07.16	15.08.16	NO	YES	NO	Individual	I
	Staff/Agency Suppliers	20.07.16	17.08.16	NO	YES	NO	Individual	I
	housing Stock/Fraud	21.07.16	18.08.16	NO	YES	NO	Organisation	O
	Child Protection	25.07.16	22.08.16	YES	YES	NO	Individual	I
	Print Management	26.07.16	23.08.16	YES	YES	NO	Individual	I
	Goods and Supplies	02.08.16	31.08.16	YES	YES	NO	Individual	I
	Social Media Policy	30.08.16	27.09.16	YES	YES	NO	Individual	I
	Playground Closure and budgets	02.09.16	30.08.16	NO	YES	NO	Individual	I
	Housing Construction/ Planning and BC	05.09.16	03.10.16	YES	YES	NO	Individual	I
Page 16	Licensing and NNDR info	08.09.16	06.10.16	YES	No - Clarification e-mail sent. No response.	NO	Organisation	O
	Body Cameras Worn EH & DC Howard	14.09.16	12.10.16	YES	YES	NO	Campaign Group	C
	Property Guardian/vacant buildings	14.09.16	12.10.16	YES	YES	NO	Media	M

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Regeneration & Development (42)								
	Pay & Display machines surplus	05.04.16	04.05.16	YES	YES	NO	Individual	I
	Blocks of flats	19.04.16	18.05.16	YES	YES	NO	Individual	I
	85 Chalk Hill	19.04.16	18.05.16	YES	YES	NO	Individual	I
	Watford Fields	14.04.16	13.05.16	YES	YES	NO	Individual	I
	Historic information stored	26.04.16	25.05.16	YES	YES	NO	Organisation	O
	Residents objections	09.05.16	07.06.16	YES	YES	NO	Media	M
	Affordable Housing	10.05.16	08.06.16	YES	YES	NO	Organisation	O
	320 Cassiobury Drive	09.05.16	07.06.16	YES	YES	NO	Individual	I
	Mildred Avenue double-yellow parking - Thursday 19 May	19.05.16	17.06.16	YES	YES	NO	Individual	I
	CIL	20.05.16	20.06.16	YES	YES	NO	Organisation	O
	Assets of Community Value	20.05.16	20.06.16	YES	YES	NO	Organisation	O
	Con29 Drainage	20.05.16	20.06.16	YES	YES	NO	Organisation	O
	Public Rights of Way	20.05.16	20.06.16	YES	YES	NO	Organisation	O
page 17	Planning matters	02.06.16	30.06.16	YES	YES	NO	Media	M
	St Albans DC and Watford BC meeting on 20 April 2015	15.06.16	13.07.16	YES	YES	NO	Organisation	O
	Parking restrictions in Watford	15.06.16	13.07.16	YES	YES	NO	Individual	I
	Does the Council have a policy to build homes to the 16 design criteria of the Lifetime Homes Standard	16.06.16	14.07.16	YES	YES	NO	Organisation	O
	Charging for 4 hour tickets	17.06.16	15.07.16	YES	YES	NO	Individual Watford Resident	IWB
	Tall Buildings Residential Planning	23.06.16	21.07.16	YES	YES	NO		
	Obstruction of foot/cycle path at Mercedes Benz Bushey Arches	24.06.16	22.07.16	YES	YES	NO	Individual	I
	Number of parking tickets	01.07.16	29.07.16	YES	YES	NO	Organisation	O
	Residential and Commercial Developments identified and in planning	01.07.16	29.07.16	YES	YES	NO	Organisation	O
	Land and Buildings at 8 -12 Chalk Hill	01.07.16	29.07.16	YES	YES	NO	Organisation	O
	Pre-Application Advice 9-14 Aldenham Road	01.07.16	29.07.16	YES	YES	NO	Organisation	O
	Councils parking service	07.07.16	04.08.16	YES	YES	NO	Media	M

SERVICE & No.OF REQUESTS RECEIVED	REASON FOR REQUEST	DATE RECEIVED	DUE DATE	RESPONDED WITHIN TIMESCALE? (Y/N)	INFORMATION PROVIDED? (Y/N)	CUSTOMER ADVISED ON ALTERNATIVE LOCATION OF INFORMATION (Y/N)	Category (Individual, Organisation, Media, Campaign Group, Individual Watford Resident)	CAT Code
Regeneration & Development (42)								
	Listed Building Heritage Partnership Agreements	05.07.16	02.08.16	YES	YES	NO	Organisation	O
	Development Agreement between the Council and the LABV, in respect of the Watford Health Campus	12.07.16	09.08.16	YES	YES	NO	Individual	I
	Parking service information	21.07.16	18.08.16	YES	YES	NO	Individual	I
	Number of CCTV cameras in north watford	21.07.16	18.08.16	YES	YES	NO	Individual	I
	Listed Building Heritage Partnership Agreements	05.07.16	02.08.16	YES	YES	NO	Organisation	O
	Mildred Avenue double-yellow parking - Thursday 19 May	19.05.16	17.06.16	YES	YES	NO	Individual	I
	Facilities for disabled people	05.06.16	04.07.16	YES	YES	NO		
	Sum of costs awarded by your authority	04.07.16	01.08.16	NO	NO	NO	Individual	I
	Sustainable Urban Drainage Systems (SUDs)	05.07.16	02.08.16	YES	YES	NO	Organisation	O
	Pre-Fab & system built housing	21.07.16	18.08.16	YES	YES	NO	Organisation	O
	Bay Blue Badge Parking	26.07.16	23.08.16	YES	YES	NO	Individual	I
	Watford Health Campus	03.08.16	01.09.16	NO	NO	NO	Individual	I
	Parking Contracts	08.09.16	06.10.16	YES	YES	NO	Organisation	O
	Conversion of agricultural buildings into residential	05.09.16	03.10.16	YES	YES	NO	Individual	I
	M/N Zone	06.09.16	04.10.16	YES	YES	NO	Organisation	O
	Town and Village Green information	12.09.16	10.10.16	YES	YES	NO	Organisation	O
	Amatuer radio masts	12.09.16	10.10.16	NO	YES	NO	Individual	I

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SERVICE & No.OF REQUESTS RECEIVED	REASON FOR REQUEST	DATE RECEIVED	DUE DATE	RESPONDED WITHIN TIMESCALE? (Y/N)	INFORMATION PROVIDED? (Y/N)	CUSTOMER ADVISED ON ALTERNATIVE LOCATION OF INFORMATION (Y/N)	Category (Individual, Organisation, Media, Campaign Group, Individual Watford Resident)	CAT Code
Revenues & Benefits (46)								
	NDR numerous	05.04.16	04.05.16	YES	YES	NO	Organisation	O
	NDR liabilities	07.04.16	06.05.16	YES	YES	NO	Organisation	O
	NDR numerous	14.04.16	09.04.16	YES	YES	NO	Individual	I
	NDR numerous	14.04.16	09.04.16	YES	YES	NO	Individual	I
	NDR credit	23.04.16	24.05.16	YES	YES	NO	Individual	I
	NDR credit	26.04.16	25.05.16	YES	YES	NO	Organisation	O
	NDR numerous	28.04.16	27.05.16	YES	YES	NO		
	NDR Retention	29.04.16	31.05.16	YES	YES	NO		
	NDR numerous	08.05.16	07.06.16	YES	YES	NO	Organisation	O
	NDR numerous dates	06.05.16	06.06.16	YES	YES	NO	Individual	I
	NDR numerous	12.05.16	10.06.16	YES	YES	NO	Organisation	O
	Ctax collection & CTS rates	17.05.16	15.06.16	NO	YES	NO	Media	M
	Ctax Cllr	19.05.16	17.06.16	YES	YES	NO	Individual	I
	NDR liable periods	19.05.16	17.06.16	YES	YES	NO	Individual	I
	Ctax numerous	25.05.16	23.06.16	YES	YES	NO	Individual	I
	NDR liability	01.06.16	29.06.16	YES	YES	NO	Organisation	O
	NDR numerous	01.06.16	29.06.16	YES	YES	NO	Organisation	O
	NDR numerous	07.06.16	05.07.16	YES	YES	NO	Individual	I
	NDR numerous	07.06.16	05.07.16	YES	YES	NO	Individual	I
	NDR liability	13.06.16	11.07.16	YES	YES	NO	Organisation	O
	NDR liability	14.06.16	12.07.16	YES	YES	NO	Organisation	O
	NDR liability	14.06.16	12.07.16	YES	YES	NO	Organisation	O
	Ctax credits / write backs	14.06.16	12.07.16	YES	YES	NO	Organisation	O
	NDR numerous	21.06.16	19.07.16	YES	YES	NO	Organisation	O
	NDR over 5 years	27.06.16	25.07.16	NO	YES	NO	Organisation	O

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SERVICE & No.OF REQUESTS RECEIVED	REASON FOR REQUEST	DATE RECEIVED	DUE DATE	RESPONDED WITHIN TIMESCALE? (Y/N)	INFORMATION PROVIDED? (Y/N)	CUSTOMER ADVISED ON ALTERNATIVE LOCATION OF INFORMATION (Y/N)	Category (Individual, Organisation, Media, Campaign Group, Individual Watford Resident)	CAT Code
Revenues & Benefits (46)								
	Emails	28.06.16	26.07.16	YES	YES	NO	Organisation	O
	NDR dates	30.06.16	28.07.16	YES	YES	NO	Individual	I
	NDR numerous	30.06.16	28.07.16	YES	YES	NO	Individual	I
	NDR credits	05.07.16	02.08.16	YES	YES	NO	Organisation	O
	Ctax Bank / CharOrders	06.07.16	03.08.16	YES	YES	NO	Individual	I
	CTAX/NDR Printing	15.07.16	12.08.16	YES	YES	NO	Individual	I
	LCTRS	02.08.16	31.08.16	YES	YES	NO	Organisation	O
	NDR New business	28.07.16	25.08.16	YES	YES	NO	Individual	I
	NDR credit	04.08.16	02.09.16	YES	YES	NO	Organisation	O
	NDR credit	09.08.16	07.09.16	YES	YES	NO	Organisation	O
	NDR credit	10.08.16	08.09.16	YES	YES	NO	Organisation	O
	NDR New business	10.08.16	08.09.16	YES	YES	NO	Individual	I
	NDR list	22.08.16	20.09.16	YES	YES	NO	Individual	I
	Charge on properties	18.08.16	16.08.16	YES	YES	NO	Organisation	O
	New businesses	25.08.16	23.09.16	YES	YES	NO	Individual	I
	Full CT list	31.08.16	28.09.16	YES	YES	NO	Organisation	O
	Residential properties	06.09.16	04.10.16	YES	YES	NO	Media	M
	NDR numerous	06.09.16	04.10.16	YES	YES	NO	Organisation	O
	NDR numerous	06.09.16	04.10.16	YES	YES	NO	Organisation	O
	NDR numerous	06.09.16	04.10.16	YES	YES	NO	Individual	I
	NDR numerous	21.09.16	19.10.16	YES	YES	NO	Individual	I

Report to: Audit Committee

Date of meeting: 7 December 2016

Report of: Bob Watson – Head of Finance (shared services)

Title: **Annual Governance Statement (AGS) – Action Plan Update**

1.0 SUMMARY

1.1 This report gives details of the progress in implementing the actions required resulting from the Annual Governance Statement.

2.0 RECOMMENDATIONS

2.1 That the Committee notes the progress made against the action plan.

For further information on this report please contact: -
Bob Watson, Head of Finance (shared services)
telephone extension: 7188
email: bob.watson@threerivers.gov.uk

Report approved by: Bob Watson, Head of Finance

3.0 **DETAILS**

- 3.1 The 2015/16 Annual Governance Statement was published with the Statement of Accounts and contains a high level action plan to ensure continuous improvement of the system of internal control. An update of action taken is attached at Appendix 1.
- 3.2 There are two outstanding significant governance issues relating to ICT which will be reviewed by the internal audit service as part of future audits to ensure compliance.
- 3.3 The recommendation enables the Committee to note the progress made against the action plan.

4.0 **IMPLICATIONS**

4.1 **Financial**

- 4.1.1 None Specific.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 None Specific.

4.3 **Equalities**

None Specific.

4.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

APPENDICES

Appendix 1 - Annual Governance Statement – High Level Action Plan

APPENDIX 1

No.	Issue	Action	Resolved	Update
1	The Disaster Recovery Plan is not current. The Council should take priority to ensure the kit list is updated and fit for purpose	The Council will ensure that the kit lists are updated and fit for purpose in conjunction with Capita who are responsible for Third party contracts for DR. Disaster Recovery and business continuity plans will be reviewed annually to ensure suitability, adequacy and effectiveness	No	<p>All asset lists, including desktops, servers and network equipment have been updated and are managed by the Service Desk Provider. Procedures documents are currently being reviewed and updated. Revised Deadline: 31st October 2016</p> <p><i>From the 1 July 2016 the council has let a new contract for ICT support. All controls in place from the new provider will be reviewed by internal audit as part of future audits.</i></p>
2	The lack of an effective testing strategy for Disaster Recovery may mean that gaps and defects in the plan may not be identified	Once the kit lists are updated, DR tests will take place on critical systems and their key dependencies	No	<p>The testing will take place once the DR procurement has taken place, a requirement to undertake this is being built into the specification. Revised deadline: 31st December 2016.</p> <p><i>From the 1 July 2016 the council has let a new contract for ICT support. All controls in place from the new provider will be reviewed by internal audit as part of future audits.</i></p>

Part A

Report to: Audit Committee
Date of meeting: 7 December 2016
Report of: Head of Finance shared services
Title: External Auditor's Annual Audit Letter

1.0 **Summary**

1.1 This report allows the Committee to ask questions of the external auditor concerning his 'Annual Audit Letter'.

2.0 **Recommendations**

2.1 That members note the contents of the Annual Audit Letter.

Contact Officer:

For further information on this report please contact: -

Bob Watson, Head of Finance shared services

Telephone extension: 7188

email: bob.watson@threerivers.gov.uk

Report approved by: Joanne Wagstaffe Director of Finance

3.0 **Details**

3.1 Attached at Appendix 1 is the Annual Audit Letter.

3.2 A representative from EY LLP, the Council's appointed external auditors will be at the meeting to present the letter and answer questions.

4.0 **Implications**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues (Monitoring Officer)**

4.2.1 None Specific.

4.3 **Equalities**

4.3.1 None Specific.

4.4 **Potential Risks**

4.4.1 There are no risks associated with the decisions members are being asked to make.

Appendices

Appendix 1 Annual Audit Letter 2015/16 – October 2016

Watford Borough Council

Annual Audit Letter for the year ended 31 March 2016

OCTOBER 2016

Ernst & Young LLP

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

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

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

This Annual 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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Watford Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

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 2016 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.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 29 th September 2016.
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 29 th September 2016.

In December 2016 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.

Andrew Brittain

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

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 2015/16 Audit Results Report to the 29th September 2016 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

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 March 2016 and is conducted in accordance 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.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 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 thy 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 National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

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 29th September 2016.

Our detailed findings were reported to the September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</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 selected a number of journals to review based on our risk assessment. We have agreed these to other areas of our audit work or other supporting evidence. We have no concerns to raise.</p> <p>We have reviewed the most significant accounting estimates. We have not identified any evidence of management bias.</p> <p>We have not identified any unusual business transactions.</p>
<p>Risk of error in Property Valuations</p> <p>Auditing standards (ISA 620) require us to gain particular assurances when an expert has been engaged by an audited body and where this influences material figures in the financial statements. The Authority engages a professional valuer to provide it with asset valuations. These assets represent a material figure in the</p>	<p>We reviewed the information provided by the authority to the valuer and the valuations provided by the valuer to ensure that they have been correctly reflected in the financial statements, and that the valuations has been made on appropriate basis. We also reviewed the valuer's competency and objectivity. We audited the prior period adjustment identified by the Council that resulted in investment properties being reclassified as land and buildings as they were not held for</p>

Authority's Accounts.

From 2015/16, the Code of Practice on Local Authority Accounting in the United Kingdom adopted IFRS 13 for assets and liabilities included in the financial statements that either permit or require measurement at fair value.

The 2014/15 balance showed a balance of £120 million for Investment Property, and therefore this change in approach will impact on material disclosures in the financial statements.

As this is an initial audit engagement for us, we will also review the classification of assets in the balance sheet to gain assurance that Investment Property and other fixed assets are appropriately classified and valued.

investment purposes. There were no issues arising as a result of our work on property valuation.

Other Key Findings	Conclusion
Business rates appeals provision	<p>Our audit of the Business Rates Appeals provision found that it was made up of three specific elements</p> <ol style="list-style-type: none"><li data-bbox="972 363 2085 488">1. An analysis of known appeals on the Valuation Office Agency list completed by Analyse Local, industry experts. We performed procedures that enabled us to be able to rely on management's experts' estimation to provide us with assurance over this element of the provision.<li data-bbox="972 501 2085 657">2. A provision for appeals that have not yet been lodged. This was included as the Council has past experience of the Valuation Office settling appeals that are not included on the list above. We reviewed the methodology for compiling this element, tested the source data used in constructing it and performed a series of reasonableness tests of the estimation to provide us with assurance over this element of the provision.<li data-bbox="972 670 2085 858">3. A contingency. On enquiry with management we found that this element was included to be prudent in protecting the Council from any further exposures not covered by the two elements above. In our opinion the contingency has no specific basis which meets the requirement of the relevant accounting standard on provisions, IAS 37. Therefore we raised this as a judgemental audit difference which has been corrected by management (see Appendix A). <p>In line with best practice we recommend that the methodology for the calculation of this provision is reviewed each year to ensure the calculation basis is suitable, that it provides a reasonable basis for the provision and that all elements can be evidenced as reliable estimates in accordance with IAS37.</p>

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

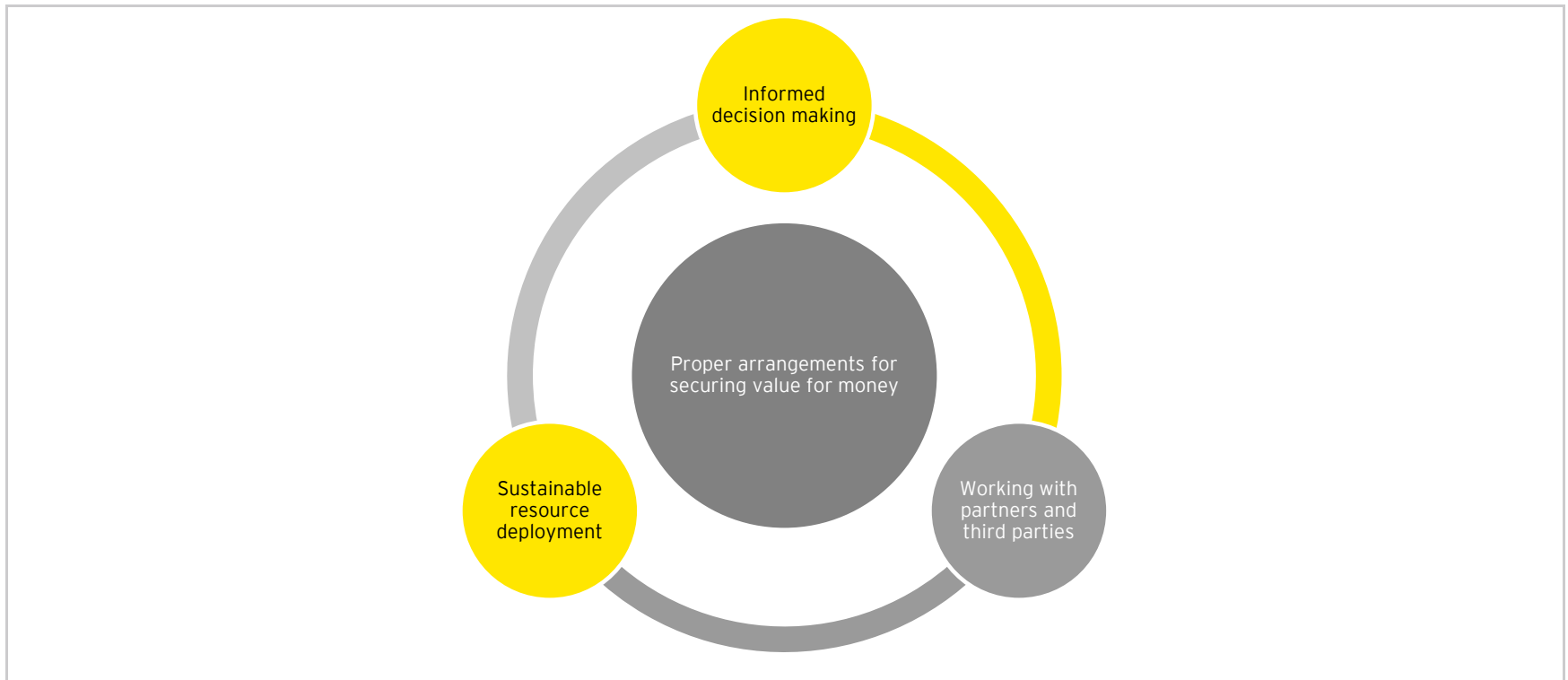
Value for Money

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 issued an unqualified value for money conclusion on 29th September 2016.

We did not identify any significant matters in relation to the Council's arrangements.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 identified a small number of areas where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include these areas.

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 2015/16 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 29th September 2016. 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.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Authorisation of journals - subsequent to authorisation of journals finance staff then amend the coding without further authorisation being obtained.	Allocation of expenditure on the wrong cost centre leading to misinformed decision making.
Accounts receivable controls - monthly monitoring of debt levels by management is not evidenced	Debt levels can go unchallenged if the review is not happening, exposing the Council to bad debt risk. Note that the absence of evidence meant we were not able to rely on this control so had to undertake additional substantive testing of year-end debtors.
Housing Benefit overpayments - invoices raised to landlords are not followed up in a timely manner. (Invoices were passed to bailiff's as a result of audit queries)	Delays the receipt of income for the Council

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through 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>Earlier deadline for production and audit of the financial statements from 2017/18</p>	<p>The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward. As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July in 2018.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements. The Council is aware of this challenge and the need to start planning for the impact of these changes. This will include the need to review the current processes for the production of the accounts and the associated supporting working papers, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>
<p>Appointment of auditors</p>	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments. After this, the Council can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017. The council should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if the council should make its own arrangements following the legislative requirements.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 29th September 2016 Annual Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee - Code work	59,001	51,975	51,975
Total Audit Fee - Certification of claims and returns*	TBC	8,316	8,316

**Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time.*

We have completed additional work in respect of;

- review and consultation on seven proposed prior period adjustments
- audit of two prior period adjustments (investment properties and cash flow statement)
- the additional significant risk on PPE valuation
- additional testing and reporting due to not being able to rely on the IT control environment
- additional accounts receivable testing due to not being able to rely on controls
- additional journal testing due to the issues highlighted above

We have discussed and agreed an additional fee for the above which has been agreed with management and is subject to approval from PSAA.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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Report to: Audit Committee

Date of meeting: 7 December 2016

Report of: Bob Watson - Head of Finance (shared services)

Title: Internal Audit Progress report 2016/2017

1.0 **Summary**

1.1 This report gives details of the progress made in implementing the recommendations of the internal auditor.

2.0 **Recommendations**

2.1 Note the Internal Audit Progress Report against the 2016/17 Audit Plan

2.2 Approve amendments to the Audit Plan as at December 2016

2.3 Agree removal of implemented recommendations (see Appendix C)

2.4 Agree the changes to the implementation date for 24 recommendations for the reasons set out in Audit Progress Report (paragraph 2.5)

Contact Officer:

For further information on this report please contact: -

Bob Watson, Head of Finance (shared services)

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Report approved by: Bob Watson, Head of Finance

3.0 **Details**

- 3.1 The Shared Internal Audit Service (SIAS) latest Progress Report is attached.
- 3.2 Details of progress against the Internal Audit Plans for 2016/17 are attached at Appendix A. Appendix B shows the proposed start dates of the 2016/17 audit plan.
- 3.3 Appendix C provides information on recommendations which remain outstanding from audits carried out in 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17 and details only those recommendations which were not resolved at the time of the last report together with new audit reports issued since that time. New reports and new comments are shown in bold.
- 3.4 The table below summarises progress in implementation of the recommendations:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & request made for extended time	Percentage implemented %
2010/11	213	212	0	1	99%
2011/12	114	111	0	3	97%
2012/13	49	48	0	1	98%
2013/14	93	92	0	1	99%
2014/15	57	52	0	5	91%
2015/16	56	37	6	13	66%
2016/17	4	0	4	0	0%

4.0 **Implications**

4.1 **Financial**

- 4.1.1 There are no budget implications associated with this report. The work of internal audit contributes to the Council's corporate governance.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 None Specific.

4.3 **Equalities**

None Specific.

4.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

ATTACHMENTS

1 – SIAS Progress Report

APPENDICES

Appendix A – detailed progress against 2016/17 audit plan

Appendix B – 2016/17 Audit Plan projected start dates

Appendix C – Summary of outstanding recommendations



Watford Borough Council Audit Committee Progress Report 7 December 2016

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 18 November 2016
- Approve amendments to the Audit Plan as at 18 November 2016
- Agree removal of implemented recommendations (see Appendix C)
- Agree changes to the implementation dates for 7 recommendations (paragraph 2.5.1) for the reasons set out in Appendix C

Contents

1 Introduction and Background

1.1 Purpose

1.2 Background

2 Audit Plan Update

2.1 Delivery of Audit Plan and Key Audit Findings

2.3 Status of Audit Recommendations

2.7 Proposed Audit Plan amendments

2.8 Performance Management

Appendices

A Progress against the 2016/17 Audit Plan

B 2016/17 Audit Plan Projected Start Dates

C Progress against Outstanding Internal Audit Recommendations

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2016/17 as at 18 November 2016.
 - b) Proposed amendments to the approved 2016/17 Annual Audit Plan.
 - c) Implementation status of all outstanding previously agreed audit recommendations from 2010/11 onwards.
 - d) An update on performance management information as at 18 November 2016.

Background

- 1.2 The work of internal audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.
- 1.3 The 2016/17 Annual Audit Plan was approved by Audit Committee on 14 March 2016.
- 1.4 The Audit Committee receives periodic updates on progress against the Annual Audit Plan from SIAS, the most recent of which was brought to this Committee on 29 September 2016.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 18 November 2016, 50% of the 2016/17 Audit Plan days had been delivered for the combined WBC and Shared Services plans (calculation excludes contingency). Appendix A provides a status update on each individual deliverable within the audit plan.
- 2.2 Four 2016/17 audits providing assurance to the Audit Committee have been finalised since the September 2016 meeting. All final audit reports are available to Members on request.

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Section 106 Agreements	Sep '16	Substantial	One medium One merits attention
DFG Capital Grant Certification	Sep '16	N/A	N/A
NDR	Nov '16	Full	None
Museum Exhibits	Nov '16	Substantial	Two merits attention

Status of Audit Recommendations

- 2.3 Members will be aware that a Final Audit Report is issued when it has been agreed by management and includes an agreement to implement the recommendations made. It is SIAS's responsibility to bring to Members' attention the implementation status of all audit recommendations. It is the responsibility of officers to implement recommendations by the agreed date.

2.4 The table below summarises progress in implementation of all outstanding internal audit recommendations as at November 2016, with full details given in Appendix C:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & request made for extended time*	Percentage implemented %
2010/11	213	212	0	1	99%
2011/12	114	111	0	3	97%
2012/13	49	48	0	1	98%
2013/14	93	92	0	1	99%
2014/15	57	52	1	4	91%
2015/16	56	44	5	7	79%
2016/17	6	2	4	0	33%

*or no update provided

2.5 The 17 recommendations in the 'outstanding and request made for extended time' column fall into 2 categories as per sections 2.5.1 and 2.5.2 below.

2.5.1 Since September 2016 Audit Committee, extension to implementation dates have been requested by action owners for 7 recommendations from the following 2015/16 audits:

- a) Two from the Development Management audit,
- b) Two from the Safeguarding audit,
- c) One from the Building Control audit,
- d) One from the Contract Management audit, and
- e) One from the Cemeteries audit.

2.5.2 In respect of the following ten recommendations, no updates were provided for this meeting of the committee (in 5 of these, the latest target date for implementation was 31 October 2016):

Audit Year	Audit Name	Number of Outstanding Recommendations	Target Dates (2016)
2010/11	IT Remote Working	One	31 December
2011/12	IT Project Management	One	31 October
	IT Back Up & DR	Two	31 October
2012/13	Server Virtualisation	One	31 December
2013/14	Cyber Risk	One	31 October
2014/15	Benefits	One	31 December
	Disaster Recovery	Three	31 October (one) 31 December (two)

Proposed Audit Plan Amendments

2.6 The following amendments to the 2016/17 Audit Plan have been agreed with officers of the Council and are detailed below for Audit Committee approval:

Additions:

- None

Changes:

- Six additional days taken from contingency (shared plan) and added to the existing HR Starters and Leavers audit (shared plan) to cover further work agreed.

Deletions:

- Commercialisation audit cancelled as a review has been commissioned by the Managing Director from a consultancy firm. Fifteen days returned to contingency (shared plan).

Performance Management

Reporting of Audit Plan Delivery Progress

- 2.7 To help the Committee assess the current situation in terms of progress against the projects in the 2016/17 Audit Plan, we have provided an analysis of agreed start dates at Appendix B. These dates have been agreed with management and resources allocated accordingly. This is designed to facilitate smoother delivery of the audit plan through the year.
- 2.8 Annual performance indicators and associated targets were approved by the SIAS Board in March 2016. Actual performance for Watford Borough Council against the targets that can be monitored for 2016/17 is shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 18 November 2016	Actual to 18 November 2016
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	55%	50%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects (excludes 2015/16 completion and ‘on-going’ pieces)	95%	38% (9 out of 24 projects to draft)	25% (6 out of 24 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level	100%	100%	100%

4. Number of High Priority Audit Recommendations agreed	95%	95%	N/A (none yet made in 2016/17)
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2.9 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2016/17 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the civic year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AT 18 NOVEMBER 2016

2016/17 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Key Financial Systems								
Benefits (shared plan)					14	Yes	3.5	In fieldwork
Council Tax (shared plan)					11	Yes	5	In fieldwork
Creditors (shared plan)					9	Yes	1	Terms of reference issued - due to start December 2016
Debtors (shared plan)					10	Yes	5.5	In fieldwork
Main Accounting (shared plan)					12	Yes	1	Terms of reference issued - due to start January 2017
NDR (shared plan)	Full	0	0	0	12	Yes	12	Final report issued
Payroll (shared plan)					12	Yes	1.5	Terms of reference issued - due to start December 2016
Treasury Management (shared plan)					10	Yes	1	Terms of reference issued - due to start January 2017
Budget Monitoring (shared plan)					8	Yes	1	Terms of reference issued - due to start February 2017

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AT 18 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Operational Audits								
Commercialisation					1	N/A	1	Cancelled
Freedom of Information	Substantial	0	1	3	6	Yes	6	Final report issued
Homelessness					1	N/A	1	Cancelled
Housing Allocations					0	N/A	0	Cancelled
Housing Service - Peer Review Outcomes					4	Yes	0	In planning
HR Starters & Leavers (shared plan)					16	Yes	13.5	In fieldwork
Museum Exhibits	Substantial	0	0	2	12	Yes	12	Final report issued
Revenues & Benefits Service – Bailiff Contract (shared plan)					10	Yes	3.5	In fieldwork
Section 106 Agreements	Substantial	0	1	1	8	Yes	8	Final report issued
Tree Surveying					8	Yes	0	Due January 2017
Officer Expenses (shared plan)					12	Yes	10.5	In fieldwork
DFG Capital Grant Certification	N/A	-	-	-	2	Yes	2	Complete
Procurement								
Contract Management					12	Yes	8.5	In fieldwork
Veolia Contract Management	Full	0	0	0	8	Yes	8	Final report issued
Counter Fraud								
Review of counter-fraud arrangements (shared plan)					5	Yes	0	Due December 2016

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AT 18 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Risk Management and Governance								
No audits planned in 2016/17								
IT Audits								
IT Audits – details to be determined (shared plan)				20	No	0.5	In planning - due quarter 4	
SIAS Joint Work								
Shared Learning Newsletters and Summary Themed Reports				2	N/A	1	Ongoing	
Audit Committee Workshop				1	N/A	0	Expected quarter 4	
Joint Review - Benchmarking Workshop				2	N/A	0	Expected quarter 4	
Joint Review – Local Authority Trading				2.5	Yes	0.5	In planning	
Joint Review – PREVENT				2.5	Yes	0.5	In planning	
Ad Hoc Advice								
Ad Hoc Advice				3	N/A	1.5	On-going	
Contingency								
Unused Contingency (shared plan)				14	N/A	0		

APPENDIX A PROGRESS AGAINST THE 2016/17 AUDIT PLAN AT 18 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Strategic Support								
Head of Internal Audit Opinion 2015/16					2	N/A	2	Complete
External Audit Liaison					1	N/A	0.5	Ongoing
Audit Committee					10	N/A	7	Ongoing
Monitoring & Client Liaison					12	N/A	7	Ongoing
2017/18 Audit Planning					8	N/A	0.5	In progress
SIAS Development					3	N/A	3	Complete
Follow-up of recommendations					10	N/A	7	On-going
Completion of 2015/16 audits								
Time required to complete work commenced in 2015/16 (5 days shared; 5 days WBC)					10	N/A	10	Complete
WBC TOTAL					126		82	
SHARED SERVICES TOTAL					180		64.5	
COMBINED TOTAL					306		146.5	

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Key to recommendation priority levels:

H = High

M = Medium

MA = Merits attention

N/A = Not applicable

APPENDIX B 2016/17 AUDIT PLAN PROJECTED START DATES

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Revenues & Benefits System Parameter Testing (shared plan)* Complete	Museum Exhibits Final report issued	Veolia Contract Mgmt Final report issued	Section 106 Agreements Final report issued	HR Starters & Leavers (shared plan) In fieldwork	Contract Mgmt In fieldwork	Council Tax (shared plan) In fieldwork	NDR (shared plan) Final report issued	Treasury Mgmt (shared plan) Terms of reference issued	Creditors (shared plan) Terms of reference issued	Budget Monitoring (shared plan) Terms of reference issued	
Page 69	Officer Expenses (shared plan) In fieldwork	FOI Final report issued			Disabled Facilities Grants – Certification Complete	Debtors (shared plan) In fieldwork	Benefits (shared plan) In fieldwork	IT Audits (shared plan) In planning	Main Accounting (shared plan) Terms of reference issued		

APPENDIX B 2016/17 AUDIT PLAN PROJECTED START DATES

					Revs & Bens Bailiff Contract (shared plan) In fieldwork	Housing Service – Peer Review Outcomes In planning	Payroll (shared plan) Terms of reference issued	Review of Counter-Fraud Arrangements (shared plan)	Tree Surveying		
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***Notes:**

- Revenues & Benefits System Parameter Testing work completed in May – remainder of Benefits, NDR and Council Tax due Q3.
- Enforcement Agents Contract – Revenues & Benefits Services (shared plan) audit deferred from July to September at Management’s request pending revised management arrangements.
- The following key financial audits have been moved slightly to accommodate external audit reporting requirements:
 - Creditors and Main Accounting audits moved from January to December
 - Treasury Management moved from December to January / February.

Audit Plan 2010/11

IT Remote Working 2010/11 Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
09	<p>Management should ensure that security settings on mobile device handsets such as iPhones enforce the following settings:</p> <ul style="list-style-type: none"> • Devices should be required to be protected by a power on password or PIN. Any default passwords or PIN codes need to be changed on first use, these should not be removed unless authorised in writing by ICT; • Devices should be set to 'Non-discoverable' or 'Hidden' to help prevent information disclosure by short distance data transfer; and • Users should be restricted from reconfiguring the security settings on devices. <p>The remote wipe solution should be investigated to ensure all the data stored on the mobile phone can be wiped either remotely or by exceeding the login threshold. Management should ensure that only ICT approved mobile devices should be procured</p>	Important	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 Provision of an Enterprise Mobility Management solution to address all of these points was included in the procurement of the new Service Desk solution.</p> <p>Subsequent to the on-boarding of the new Service Desk, (EMM) requirements will be documented and procured from the Service Desk provider and all current Windows or iphones supplied by the authority will come under this solution.</p> <p>The aim is to have this in place by December 2016.</p> <p>Position – September 2016 It is still anticipated that this will be in place by December 2016.</p> <p>Position – November 2016 No update received.</p>	ICT Client Section Head	March 2013	*	31 December 2016

IT Remote Working 2010/11 Final report issued January 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	and issued and all confidential and sensitive data held on mobile device handsets such as iPhones is adequately encrypted according to the sensitivity of the data.						

**WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2011/12**

IT Project Management 2011/12							
Final report issued November 2011							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	An IT Strategy that supports both Councils' corporate strategies needs to be implemented to direct the forward usage of ICT within both Councils and the Shared Service. An IT strategy should be developed in consultation with the business strategies for both Councils and the Shared Service to ensure that IT development links into corporate priorities.	Minor	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 A new ICT Strategy is to be produced which will cover both Councils. This is expected to be completed by the end of October 2016. An additional resource will be procured from the ICT Transformation budget.</p> <p>Position – September 2016 An Interim Head of Service Transformation has been appointed and it is anticipated that the strategies will be completed by the end of October 2016.</p> <p>Position – November 2016 No update received.</p>	ICT Client Section Head	October 2012	*	31 October 2016

IT Back up and Disaster Recovery 2011/12							
Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	The Shared Service should conduct a risk assessment of the capability to recover key systems and services in the event of a disaster based on the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) for Councils' systems. This should ensure that any potential issues that could be faced are documented with appropriate counter measures put in place.	Essential	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 A full DR and BCP requirements review will be carried out as a precursor to re-tendering both the DR and BCP contracts covering both councils. Contract retender and award must be completed by November 2016. It is anticipated that the DR and BCP requirement will be completed by the end of October 2016.</p> <p>Position – September 2016 It is still anticipated that this will be completed by the end of October 2016.</p> <p>Position – November 2016 No update received.</p>	ICT Client Section Head	May 2013	*	31 October 2016
04	The Shared Service should test its DR arrangements on an annual basis at both Adam Continuity and ICM. Testing should follow a detailed test plan and test results should be reported to management following the test period. We also recommend that where appropriate, ad hoc tests of tape restores are performed when not otherwise tested.	Essential	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 As part of the contract retender for DR / BCP the requirement for period testing will be included. As part of moving ICT desktop and server support in house a schedule of trial restores from tape will be put in place to confirm that backups are tested. This to happen by October 2016.</p> <p>Position – September 2016 It is still anticipated that this will be completed by the end of October 2016.</p>	ICT Client Section Head	March 2013	*	31 October 2016

WBC Internal Audit Recommendations Follow Up – November 2016

APPENDIX C

IT Back up and Disaster Recovery 2011/12							
Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position – November 2016 No update received.				

**WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2012/13**

IT Server Virtualisation (ICT) 2012/13							
Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	The adequacy of the security settings and management arrangements established and applied to the virtual environment at both the Councils should be reviewed and where the standards currently are not aligned with best practice standard such as recommended by CIS (Centre for Internet Security), then they should be applied/configured to create a baseline for on-going security and monitored accordingly.	Essential	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 The entire virtual environment in both councils is in the process of being upgraded to the current software versions, this will address a number of security issues, additionally where sensitive data, such as DWP information, is to be held, or accessed the virtual environment is being moved into a 'virtual garden' to restrict and secure access. This is in line with PSN and Cabinet office recommendations for securing the virtual environment. This is anticipated to be completed by December 2016.</p> <p>Position – September 2016 This is still anticipated to be completed by December 2016.</p> <p>Position – November 2016 No update received.</p>	ICT Client Section Head	November 2013	*	31 December 2016

WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2013/14

Cyber Risk 2013/14							
Final report issued June 2014							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<p>Management should ensure the data loss prevention policy is developed and published at the earliest. As part of this process, management should:</p> <p>a) Consider all possible media for data loss and risk assess the various options.</p>	High	<p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 A Data Loss prevention policy is to be produced which will cover both Councils. This is expected to be completed by the end of October 2016.</p> <p>Position – September 2016 This is still expected to be completed by the end of October 2016.</p> <p>Position – November 2016 No update received.</p>	IT Client Section Head	30 June 2015	*	31 October 2016

**WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2014/15**

NDR 2014/15							
Final report issued January 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	The available hardware should be introduced within the inspection regime, with appropriate training given where necessary	Merits Attention	<p>To clarify, the Service has bought the Inspectors module (2010 I believe) but yet to purchase the required tablets to support implementation due to lack of IT support.</p> <p>Whilst the current Revenues Manager has implemented such a module at a previous authority this was implemented with the help of internal IT resources and CSS.</p> <p>Position - February 2015 Yet to start awaiting Tablet / Module – Meeting arranged with Capita on 240315 re implementation.</p> <p>Position – May 2015 Not yet due</p> <p>Position – August 2015 Migration has still not taken place.</p> <p>Position – November 2015 Due to ongoing IT upgrades this has slipped further down list given major configuration within Academy and yet to decide on either tablet / iPad.</p> <p>Position – February 2016 Still to be implemented – ongoing.</p> <p>Position – June 2016 Still to be implemented – ongoing.</p>	Revenues Manager	31 July 2015	*	<p>30 November 2015</p> <p>31 March 2016</p> <p>31 March 2017</p>

NDR 2014/15 Final report issued January 2015							
			Position – September 2016 Discussions are still ongoing due to ICT changes and at the moment not a priority. However, potential new Revs & Bens ICT contract to be signed early Sept 2016, which at this stage will pick this up once again. Position – November 2016 Still to be implemented as not high on the agenda at the moment with a new ICT helpdesk process being bedded in.				

Benefits 2014/15 Final report issued April 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
06	In order to ensure compliance with the Data Protection Act (DPA), the Council should ensure that as a matter of urgency, the historical data stored within Anite is cleared. Going forward, the Council should ensure that there are arrangements in place to clear old data on an annual basis to ensure ongoing compliance with the DPA.	Medium	Awaiting Anite upgrade. Position - May 2015 Not yet due Position – August 2015 The Anite upgrade that will allow archiving of old data was scheduled for 1/8. Although Northgate have completed their work, Capita have not linked Anite to Office of Outlook so we cannot go live on 1/8. This has been moved from 8/8 to 12/9. If this is successful, it will take a further 8-10 weeks to restructure the database and then archiving can happen. Position – November 2015	Benefits Manager	30 June 2015	*	31 December 2015 30 Sept 2016 31 December 2016

Benefits 2014/15							
Final report issued April 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
			<p>Now that the Information@work system has been migrated to a new server and upgraded we are ready to install the retention and destruction module which will archive documents. We are currently in the process of agreeing dates for the module to be installed and training to be given. Review at the end of December 2015.</p> <p>Position – February 2016 No update received – target date has passed.</p> <p>Position – June 2016 With regard to the Retention and Destruction module for Anite, we are currently in the process of getting installation dates agreed. Due to consultancy availability it's not likely to be in place and working before 30.09.16.</p> <p>Position – July 2016 With regard to the Retention and Destruction module for Anite, we are currently in the process of getting installation dates agreed. Due to consultancy availability it's not likely to be in place and working before 30.09.16.</p> <p>Position – September 2016 We are currently waiting for pre-req documents to be completed by IT so that we can book final installation and training dates with Northgate. We expect the documentation to be completed by end of September. There is quite a wait time for Northgate consultancy hence moving the date to 31.12.16.</p> <p>Position – November 2016 No update received.</p>				

Disaster Recovery 2014/15 Final report issued June 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<ul style="list-style-type: none"> The Councils should take priority to ensure the kit lists for both the Councils are updated and fit for purpose, this is to be shared with Capita who are responsible for handling the 3rd party contracts for Disaster Recovery. During the review it was mentioned that the Councils have been shown the Essex Councils comprehensive Disaster Recovery Plan as a template. Although this DRP is not part of this review and we can therefore not pass comment on its adequacy, it can form the basis for W3R. Ensure procedure documents are kept up to date incorporating current technological environment so that the process steps covers all the detail recovery procedures in the event of disaster. IT disaster recovery and business continuity plans should be reviewed at least once a year, or if any material changes occur within the IT environment, to ensure its continuing suitability, adequacy, and effectiveness. 	High	Recommendation accepted. Position - August 2015 See section 2.5.2 of the main SIAS Update Report. Position – November 2015 See comment in section 2.5.2 of the main SIAS Update Report. Position – February 2016 See comment in section 2.5.2 of the main SIAS Update Report. Position – June 2016 History of comments removed - please see separate report by the Head of Finance. Position - July 2016 All asset lists, including desktops, servers and network equipment have been updated and are managed by the Service Desk Provider. Procedure documents are currently being reviewed and updated. This has to be completed prior to re-procuring the DR contracts, in October 2016. Position – September 2016 This has to be completed prior to re-procuring the DR contracts in October 2016. Position – November 2016 No update received.	Capita Account Director	31 August 2015	*	N/A 31 October 2016

Disaster Recovery 2014/15							
Final report issued June 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	<ul style="list-style-type: none"> Once these kit lists have been reviewed and approved, Capita should liaise with the two contractors responsible for Disaster Recovery to initiate Disaster Recovery Tests on Critical systems and their key dependencies. A complete DR scenario test on all applications and systems should ideally take place to provide assurance that recovery could happen within an acceptable time frame. Document and retain test results and evidence for review by information owners. Initiate corrective actions based upon test results. There should be Councils management oversight of the testing schedule to ensure that all disaster recovery plans are tested for adequacy and that they meet the Councils business needs. IT Disaster Recover and Business Continuity plans should be reviewed at least once a year or if any material changes occur within the IT environment to ensure its continuing suitability, adequacy, and effectiveness. 	High	<p>Recommendation accepted.</p> <p>Position - August 2015 See section 2.5.2 of the main SIAS Update Report.</p> <p>Position – November 2015 See comment in section 2.5.2 of the main SIAS Update Report.</p> <p>Position – February 2016 See comment in section 2.5.2 of the main SIAS Update Report.</p> <p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 The DR testing will take place once the DR procurement has taken place. A requirement to do DR testing will be built into the procurement specification.</p> <p>Position – September 2016 This is still anticipated to be completed by end December 2016.</p> <p>Position – November 2016 No update received.</p>	Capita Account Director / ICT Client Section Head	31 August 2015	*	N/A 31 December 2016

Disaster Recovery 2014/15							
Final report issued June 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<ul style="list-style-type: none"> • Talks surrounding the use of a data centre should be progressed. • The problem with keeping the Councils data locally is that, should a disaster occur unexpectedly be it natural or man-made, all or part of the data could be lost – including backups. • An offsite data centre solution should be considered if effective disaster recovery is a requirement at the Councils. 	Medium	<p>Recommendation accepted.</p> <p>Position - August 2015 See section 2.5.2 of the main SIAS Update Report.</p> <p>Position – November 2015 See comment in section 2.5.2 of the main SIAS Update Report.</p> <p>Position – February 2016 See comment in section 2.5.2 of the main SIAS Update Report.</p> <p>Position – June 2016 History of comments removed - please see separate report by the Head of Finance.</p> <p>Position - July 2016 The ICT strategy will reference using the Councils data centres as a backup for each other. This should ensure continuity of service in the event of a disaster recovery incident.</p> <p>Position – September 2016 This is still anticipated to be completed by end December 2016.</p> <p>Position – November 2016 No update received.</p>	Capita Account Director	31 August 2015	*	N/A 31 December 2016

**WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2015/16**

APPENDIX C

Data Protection 2015/16							
Final report issued October 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that appropriate Data Protection training is offered to Members.	Medium	<p>We have all out elections next May and it would be sensible to include Data Protection Training in new member induction.</p> <p>Position – November 2015 Not yet due. Democratic Services are currently working on member induction programme for May/June 2016.</p> <p>Position – February 2016 Not yet due.</p> <p>Position – June 2016 Not yet due.</p> <p>Position – September 2016 Training scheduled for 14 September 2016.</p> <p>Position – November 2016 Training undertaken on 14 September.</p>	Head of Democracy and Governance	30 June 2016	✓	30 Sept 2016
02	The Authority should also consider putting in place an overarching Data Sharing Protocol / Policy, which would provide a framework for the authority, helping them adopt good practices with regard to Data Sharing.	Medium	<p>Head of Democracy and Governance to develop a protocol.</p> <p>Position – November 2015 Not yet due</p> <p>Position – February 2016 Not started due to work commitments.</p> <p>Position – June 2016 Not yet due.</p>	Head of Democracy and Governance	31 January 2016	*	30 June 2016 1 January 2017

Data Protection 2015/16							
Final report issued October 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position – September 2016 Still to be developed. Position – November 2016 Draft being looked at.				

Development Management 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that all officers within the Planning Service complete a Declaration of Interest form on an annual basis.</p> <p>In addition, procedure notes should be produced documenting how the declaration of Interest will be enforced.</p> <p>We also recommend that the Head of Regeneration and Development request the Scheme of Delegation be amended so that where necessary, applications from the Council and from Councillors are referred to the Development Management Committee for decision.</p>	Merits Attention	<p>Agreed.</p> <p>We agree that all principal planners and their team leaders and section head should complete a declaration of Interest form. Normally these forms are held centrally.</p> <p>Agreed.</p> <p>Position – February 2016 Waiting for example of form from SIAS.</p> <p>Spoken with Head of Democracy and Governance. Annual reporting not necessarily sufficient as conflict of interest could occur at any time within the year. Current practice is via email to manager.</p> <p>Position – June 2016 Not implemented due to staff turnover.</p>	<p>Head of Regeneration & Development</p> <p>Head of Development Management</p>	<p>30 April 2016 (for the new Financial Year)</p> <p>31 May 2016</p>	*	<p>31 July 2016</p> <p>28 February 2017</p>

Development Management 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Revised deadline end of July 2016. Position – September 2016 No update received. Position – November 2016 No formal handover of the outstanding audit recommendations took place during the recent re-structure and as a result, the actions remain incomplete. These will now be taken forward by the Head of Development Management.				
04	We recommend that checks are undertaken on a sample of pre-existing fields to ensure data submitted is accurate. If further differences are identified the scope should be extended to include all data-sets on the PS1 and PS2 returns.	Medium	Agreed. The information provided in the PS1 and PS2 table for DCLG does not appear to allow interrogation so this has to be undertaken in a different format, which is time consuming. The variation in the two data sets is minor but this does need investigating. Further training is required in understanding the queries and how to find the raw data to review. The timing of implementing this recommendation will coincide with the updates that will be introduced for the system. Position – February 2016 Will be implemented as part of move to hosted service for Uniform planned for May 2016. Position – June 2016 Still awaiting move to hosted service.	Interim Development Management Section Head Head of Development Management	29 February 2016	*	31 May 2016 31 August 2016 28 February 2017

Development Management 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position – September 2016 No update received. Position – November 2016 No formal handover of the outstanding audit recommendations took place during the recent re-structure and as a result, the actions remain incomplete. These will now be taken forward by the Head of Development Management.				

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that the next review be approved by Leadership Team and Members.	Medium	Agreed, will take next review to Leadership Team and Cabinet. Position – February 2016 Leadership Team report re - scheduled for March 2016 Position – June 2016 Due to recent structure changes, a report to CABINET to be moved till the Autumn to allow time to have a review of Safeguarding roles and responsibilities. The current structure remains and CSE has been included in the policy and procedures.	Culture and Play Section Head	31 January 2016 (Leadership Team)	*	31 March 2016 31 October 2016 31 July 2017

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	We recommend that the policy and procedures be reviewed and amended to specifically reflect CSE.		<p>Position – September 2016 LT report scheduled for October</p> <p>Position – November 2016 Due to changes in service provision e.g. recent cessation of direct provision of Play Services, it has been agreed to conduct a full and comprehensive review of safeguarding roles, procedures, policy and resources between April – July 2017. In the interim the Section Head for Culture and Play will provide the lead, conduct a self-assessment and make any relevant recommendations to LT for the review team to team to consider.</p> <p>Agreed.</p> <p>Position – February 2016 Cabinet report re- scheduled for June or July 2016.</p> <p>Position – June 2016 Due to recent structure changes, a report to CABINET to be moved till the Autumn to allow time to have a review of Safeguarding roles and responsibilities. The current structure remains and CSE has been included in the policy and procedures.</p> <p>Position – September 2016 After LT report in October a decision to be taken by LT if a Cabinet report is required. It may be a PFH report.</p>		31 March 2016 (Cabinet)	*	<p>31 July 2016</p> <p>31 October 2016</p> <p>31 July 2017</p>

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
			<p>Position – November 2016 Due to changes in service provision e.g. cessation of direct provision of Play Services, it has been agreed to conduct a full and comprehensive review of safeguarding roles, procedures, policy and resources between April – July 2017. In the interim the Section Head for Culture and Play will provide the lead, conduct a self-assessment and make any relevant recommendations to LT for the review team to team to consider.</p>				
05	We recommend that the date of the next scheduled review be indicated within the Convictions Policy.	Medium	<p>The policy will be reviewed no later than three years from last review. The document will be amended in line with the CSE review and then taken through the Licensing Committee.</p> <p>Position – February 2016 Policy currently under review. Due for consultation March 2016 and committee approval June 2016</p> <p>Position – June 2016 Policy currently in consultation stage. Next Licensing committee is September 2016 where it will be submitted for consideration.</p> <p>Position – September 2016 Consultation closed and being considered at Licensing Committee at 15/9/2016. Next review date included.</p> <p>Position – November 2016 New Policy passed, Sept 2016, review date included.</p>	Environmental Health and Licensing Section Head	31 March 2016	✓	30 June 2016 30 Sept 2016

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
	We recommend that the Convictions policy be reviewed to include a specific reference to CSE and indicators / patterns, at present there is an ability to consider information wider than just convictions but this needs to be explicit and clear.		<p>To be developed, consulted and approved by Licensing Committee.</p> <p>Position – February 2016 Policy currently under review. Due for consultation March 2016 and committee approval June 2016</p> <p>Position – June 2016 Policy currently in consultation stage. Next Licensing committee is September 2016 where it will be submitted for consideration.</p> <p>To be developed, consulted and approved by Licensing Committee.</p> <p>Position – September 2016 Consultation closed and being considered at Licensing Committee at 15/9/2016. Includes reference to considering intelligence as well as actual convictions.</p> <p>Position – November 2016 New Policy in place, approved at September 2016 committee. Includes requirements of the recommendation.</p>		31 March 2016	✓	30 June 2016 30 Sept 2016
	We recommend that the Enforcement policy be reviewed to include patterns of behaviour/reports alongside convictions. This will include trends of complaints and concerns for particular operators.		<p>Position – February 2016 Policy under review, believed that the convictions Policy will enable this and the enforcement policy does not need amendment. Conclusion will be made by March 2016.</p> <p>Position – June 2016 Policy currently in consultation stage. Next</p>		31 March 2016	✓	30 June 2016 30 Sept 2016

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
			<p>Licensing committee is September 2016 where it will be submitted for consideration.</p> <p>Position – September 2016 Consultation closed and being considered at Licensing Committee at 15/9/2016. Includes reference to considering behaviour/trends of complaints as well as actual convictions.</p> <p>Position – November 2016 New Policy approved at September Committee that includes recommendation requirements.</p>				
07	We recommend that documentation be reviewed to include a specific reference to CSE and to provide more substantial guidance around what is considered to be serious by the organisation.	Medium	<p>Agreed.</p> <p>Position – February 2016 As 05 above.</p> <p>Position – June 2016 Policy currently in consultation stage. Next Licensing committee is September 2016 where it will be submitted for consideration.</p> <p>Position – September 2016 Consultation closed and two relevant policies being considered at Licensing Committee at 15/9/2016. Convictions Policy far more explicit and much greater clarity on offences and organisations approach.</p> <p>Position – November 2016 New Policies approved at September committee and in force.</p>	Environmental Health and Licensing Section Head	31 March 2016	✓	30 June 2016 30 Sept 2016

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
08	We recommend that the Council suggest greater scrutiny involvement to examine the organisations position in relation to safeguarding responsibilities.	Merits Attention	<p>Agreed.</p> <p>Position – February 2016 Not yet due</p> <p>Position – June 2016 Not yet due.</p> <p>Position – September 2016 Scrutiny scheduled for January 2017. Scoping meeting scheduled for October with Chair. Scrutiny officer engaged and involved.</p> <p>Position – November 2016 Overview and Scrutiny Committee’s agenda for 19 January 2017 will include an item about ‘Safeguarding’.</p>	Committee and Scrutiny Officer	30 June 2016	*	31 January 2017
09	We recommend that further discussions regarding this issue are raised through the police, obtaining clarity to ensure consistency around police notifiable occupations. This is an issue that is being discussed at a national level due to guidance issued by the National Police Chiefs’ Council.	Medium	<p>Agreed.</p> <p>Position – February 2016 Discussions with the Police Community Safety Unit who are leading discussions across the county to improve communication underway. Introduction of a new system to check applicants history in place, protocols of use of this new procedure in development jointly with 3RDC. No current issues with notifications but any will be raised and followed up.</p> <p>Position – June 2016 Local arrangement for intelligence checking with the Police fully in place and working well, this is mitigating risks surrounding formal notifications to some degree. Formal notification and disclosure through the County Police unit still unresolved. Information</p>	Environmental Health and Licensing Section Head	31 January 2016	*	<p>31 March 2016</p> <p>30 November 2016</p> <p>1 April 2017</p>

Safeguarding 2015/16							
Final report issued November 2015							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
			<p>received that clarifies the Police's position but remains unsatisfactory from WBC perspective. Request for further consideration sent to County unit and support of Watford Chief Inspector secured to champion this matter.</p> <p>Position – September 2016 Ongoing discussions. Processes continue to work well at a local level but examples at a county level continue to be found of non-notification.</p> <p>Position – November 2016 As September 2016. Issues being raised cross county in respect of Police notifications. To be raised County wide. Local processes continue to work effectively.</p>				

Building Control 2015/16 Final report issued February 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that all officers within the Building Control Service complete a Declaration of Interest form on an annual basis.	Merits Attention	<p>The team will be asked to supply details of any private work they undertake and any other conflicts of interest. This will be logged on personal files. We have asked SIAS to provide an example of an annual declaration template as used elsewhere and will then introduce an annual review process.</p> <p>Position – June 2016 Not implemented due to staff turnover. Revised deadline end July 2016.</p> <p>Position – September 2016 No update received.</p> <p>Position – November 2016 No formal handover of the outstanding audit recommendations took place during the recent re-structure and as a result, the actions remain incomplete. These will now be taken forward by the Head of Development Management.</p>	<p>Head of Regeneration & Development</p> <p>Head of Development Management</p>	30 April 2016	*	31 July 2016 28 February 2017

Contract Management 2015/16							
Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
02	It is recommended that the Council's Housing team carry out spot checks within the Hostels and Self-Contained Properties to ensure the accuracy and compliance of the Contractors inspections.	Medium	<p>Agreed – Will ensure all properties have had at least 1 spot check by end of year and put hostels on a rolling programme</p> <p>Position – September 2016 Not started yet but still intend to have this done by March 2017.</p> <p>Position – November 2016 Spot check started October focusing on hostels first - Tibbles, York, Butterwick and Aldenham checking communal areas for cleaning and maintenance standards.</p> <p>Next stage is to check void units before re-let and the standalone properties.</p>	Housing Supply Manager	<p>Start 1 July 2016</p> <p>All complete by 31 March 2017</p> <p>Then ongoing</p>	*	
03	<p>We recommend that contract risks should be identified and managed. The risks should be recorded either in a separate risk register for significant contracts, or for smaller contracts via a generic contract management risk within service risk registers.</p> <p>A review of risks should form part of contract monitoring activity.</p>	Medium	<p>Agreed – The Contract Management Forum Steering Group on 1st April, agreed to run a workshop on Contract Risk Management in June 2016. The intention of the workshop is to raise awareness of risk management and to help develop guidance and templates that are user friendly to support officers when undertaking this aspect of contract management.</p> <p>Position – September 2016 CMF training session on managing contract risk held on 19th July. It covered managing risk and the risk register and discussed a risk register template particularly for smaller projects. A further session is planned towards the end of September 2016. The aim of that session is to set objectives and actions to provide a guidance note, process and recording format to identify and manage risk.</p>	Contract Procurement Manager	30 June 2016	*	<p>30 November 2016</p> <p>28 February 2017</p>

Contract Management 2015/16 Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Position – November 2016 Significant progress has been made and there is now a draft guidance and risk log ready to put into the test and implementation stage. Three Rivers colleagues are being asked to adapt the guidance to reflect the Three Rivers scoring mechanisms which differ from Watford. The implementation plan has been discussed at the 3 rd November Steering Group and the test phase should be completed end of Dec 2016. Lunch and Learns on the process and documentation will take place in February 2017 which will complete the roll out.				

Cemeteries 2015/16							
Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	It is recommended that as part of the lone working risk assessment, consideration be given to holding regular 'one to one' meetings with the Cemetery Manager on site at the cemetery with meeting / action notes completed.	Medium	<p>Agreed – A new additional post at the Cemetery is to be recruited. As part of the process, the risk assessment will be reviewed.</p> <p>Regular meetings with staff at the Cemetery will be planned and minuted.</p> <p>Position – September 2016 Job description in draft and will be for an assistant cemetery manager. Meetings set up for monthly 121's.</p> <p>Position – November 2016 Monthly 1-2-1's taking place. Job descriptions agreed, to be sent for job evaluation.</p>	Environmental Services Client Manager (Parks & Open Spaces)	30 September 2016	✓ partly	March 2017 for new post in place
02	It is recommended that action is taken to protect the site plans. One option to consider is to create digital copies for online storage and view, and another would be to store them in a fireproof cabinet.	Medium	<p>Agreed – Fireproof cabinet to be purchased.</p> <p>Position – September 2016 Ongoing enquiries with several companies, struggling to find a product that will fit requirements. Possible solution is digitisation of maps – costs to be determined for maps and records or through the Gower system.</p> <p>Position – November 2016 Cemetery Manager met with supplier this week, awaiting quote, plans can be scanned first week of December if agreed.</p>	Cemetery Manager	30 June 2016	*	31 December 2016
03	c) This process would become obsolete if the system was linked to the Council's main-frame data storage system or a remote online connection is set up with the system provider, which is currently being reviewed as	Medium	<p>Agreed – Subject to review following mainframe issues being reviewed with new ICT provider.</p> <p>Position – September 2016 New ICT provider in place from July 2016. To</p>	Environmental Services Client Manager (Parks & Open Spaces)	31 October 2016	✓	

Cemeteries 2015/16 Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
	part of the cemetery strategy action plan.		follow up with new provider. Position – November 2016 PC at cemetery including Gower Software is now backed up to the Town Hall servers.				
04	a) It is recommended that Gower is requested to provide a refresher course and further training on the use and reporting facilities of their cemetery management system. b) Upon completion of training, it is recommended that the Cemetery Manager utilises the system to its full potential with a view to reducing the manual records currently maintained.	Merits Attention	Agreed – to be arranged. Position – September 2016 Training booked for 21.9.16 Position – November 2016 Training taken place, all Gower systems are now being fully utilised.	Cemetery Manager	30 June 2016	✓	30 Sept 2016
			Agreed – following review of current procedures with the Council's Finance team. Position – September 2016 See above. Position – November 2016 See above.	Environmental Services Client Manager (Parks & Open Spaces)	30 June 2016	✓	30 Sept 2016
05	It is recommended that a more robust system for raising invoices and subsequent debt recovery is agreed, approved and put in place. The following points should be considered: a) Process all invoices through the Council's E-fin system at the time of transaction. b) The system invoice is printed and sent immediately following completion of the service	Medium	Agreed – review and update of current procedures in conjunction with the Cemetery Manager and Finance Department will be completed. Position – September 2016 No change due to restructures in Finance department. Now in place, to be reviewed in September / October. Position – November 2016 a) The hardware at the cemetery is	Environmental Services Client Manager (Parks & Open Spaces)	31 August 2016	✓ partly	31 October 2016 31 December 2016

Cemeteries 2015/16							
Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved x or ✓	Revised Deadline
	<p>provided.</p> <p>c) If deemed necessary, a covering letter, offering a compassionate message from the Council, could be sent with the actual invoice.</p> <p>d) Following the 30 day term for payment, if still unpaid, the Council's debt recovery procedures should be used.</p> <p>e) Accurate records of any recovery 'chasing' action taken to be recorded electronically.</p> <p>f) An aged debt analysis report should be compiled and reviewed at least quarterly.</p> <p>g) The overall results of the quarterly review, including the total outstanding debt figure, should be reported to and monitored by Senior Management.</p> <p>h) Documented terms should be agreed with all Funeral Directors, specifically clarity on who will be invoiced and responsible for payment.</p>		<p>nearly in place for finance records to be completed via the council's e-finance system.</p> <p>b) Invoices are now sent at time of burial from the cemetery Gower system</p> <p>c) In the cases of infant burials and burials without a funeral director, a covering letter is sent as the invoice wording is not customer friendly for families suffering a bereavement, these were designed with funeral directors in mind</p> <p>d) A more robust system is in place for chasing invoices outstanding after 30 days, this will be part of the E-finance system when in place</p> <p>e) Accurate records of chasing are being kept at the cemetery which includes copies of all letters and notes of phone conversations</p> <p>f) This will be covered in the Council's e-finance system once in place</p> <p>g) See above</p> <p>h) To be discussed with funeral directors that request us to invoice customers direct</p>				
06	It is recommended that the cemetery takings are counted at least every two weeks and passed to the next courier for banking.	Medium	<p>Agreed</p> <p>Position – September 2016</p> <p>Two weekly banking commences in October</p>	Cemetery Manager	Immediate	✓	31 October 2016

Cemeteries 2015/16 Final report issued May 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			2016. Position – November 2016 Cemetery banking is taking place twice monthly.				
07	It is recommended that a monthly reconciliation of the cemetery accounting officers return and Gower system is made to the budget monitor records. The reconciliation should be countersigned by another appropriate officer and a record maintained of any discrepancies investigated and resolved.	Medium	Agreed – will be linked to reviewed procedures following implementation of Recommendation no.5 above. Position – September 2016 Once Gower training completed on the full finance capabilities this will be done if the cemetery banking does not transfer to E financials. Position – November 2016 Training has taken place with Gower and financial records are being reconciled on a monthly basis with printed copies attached to banking records for checking by line manager.	Cemetery Manager & Environmental Services Client Manager (Parks & Open Spaces)	31 August 2016	✓	31 October 2016

**WBC Internal Audit Recommendations Follow Up – November 2016
Audit Plan 2016/17**

Freedom of Information 2016/17							
Final report issued August 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that FOI procedures regarding Client Liaison Officer (CLO) / Customer Service Team Leader (CSTL) responsibilities are updated and a response protocol particularly for when responses should go via Communications be drafted. The procedures should show the date of last review and be subject to periodic review.	Merits Attention	Agreed Position – September 2016 No further update on above as final audit report only issued on 11 August 2016. Position – November 2016 Currently in the process of being rolled out – on target for completion by 30 November 2016.	Customer Services Team Leader	31 December 2016	*	
02	We recommend that the Council ensures all FOI requests are responded to within the 20 day target, responses are regularly monitored and appropriate action is taken to improve the performance of timely responses.	Medium	We will investigate whether the Lagan system can generate weekly alerts which would then be used for monitoring purposes. Position – September 2016 No further update on above as final audit report only issued on 11 August 2016. Position – November 2016 Implemented	Customer Services Team Leader	31 October 2016	✓	
03	We recommend that all EIR requests are identified as such when recorded, as there are some specific regulations that may need to be applied.	Merits Attention	Agreed Position – September 2016 No further update on above as final audit report only issued on 11 August 2016. Position – November 2016 Currently in the process of being rolled out – on target for completion by 30 November	Client Liaison Officers	30 April 2017	*	

Freedom of Information 2016/17							
Final report issued August 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			2016.				
04	<p>We recommend that regularly requested information such as Public Health Funerals is published on the Council's website.</p> <p>We also recommend that the Lead Officer's half year report could be improved by detailing the FOI and EIR request split and including details of reviews / appeals which indicate additional staff time used.</p>	Merits Attention	<p>A review of the associated information requested about Public Health burials is being undertaken and if this indicates supply of information on the web would be of benefit this will be undertaken and regularly updated.</p> <p>Position – September 2016 No further update on above as final audit report only issued on 11 August 2016.</p> <p>Position – November 2016 Review underway.</p> <p>Once Client Liaison Officers have been trained and are differentiating the requests</p> <p>Position – September 2016 No further update on above as final audit report only issued on 11 August 2016.</p> <p>Position – November 2016 Will be progressed for next half yearly report.</p>	<p>Environmental Health and Licensing Section Head</p> <p>Head of Democracy & Governance</p>	<p>31 December 2016</p> <p>30 April 2017</p>	<p>*</p> <p>*</p>	

Section 106 2016/17							
Final report issued September 2016							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that where appropriate, the CIL Officer should ensure that that the affordable housing obligations have been met before confirming full compliance with the requirements of the Section 106 Agreement.	Merits Attention	<p>The CIL Officer will ensure that all Section 106 Agreements securing an affordable housing provision are put on the shared 'G' drive.</p> <p>Regular liaison between CIL Officer and Housing Supply Manager will be held to ensure delivery of the correct number of affordable housing units on each development.</p> <p>New clause will be introduced to Section 106 Agreements requiring a redacted copy of the relevant lease agreement between the developer and the registered provider to be sent to the Planning department.</p> <p>Position – November 2016 These actions have all been implemented.</p>	CIL Officer	31 October 2016	✓	
02	<p>We recommend that the Service should produce a new SPD for Section 106 and Affordable Housing at the earliest opportunity.</p> <p>Once published, the SPD should be reviewed on a regular basis to ensure it remains current.</p>	Medium	<p>Most contributions are received through the Community Infrastructure Levy (CIL) and the CIL Charging Schedule has now superseded both the existing SPD and the Planning Obligations Guidelines for calculating the contributions for these cases.</p> <p>However, we do see the merit in updating the SPD for the contributions that are still received through Section 106 as well as the Affordable Housing contributions.</p> <p>Position – November 2016 Work has already commenced on the affordable housing SPD and a separate framework agreement for planning obligations. Both of these documents are on track to be published by the 30 June 2017.</p>	Planning Policy Section Head	30 June 2017	*	

PART A

Report to: Audit Committee
Council

Date of meeting: 7 December 2016
16 January 2017

Report of: Shared Director of Finance

Title: Appointment of Auditors 2018/19 and beyond

1.0 **Summary**

- 1.1 The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and required principal local authorities to appoint their own external auditors for the audit of the 2018/19 accounts by 31 December 2017.
- 1.2 There are four options for local authorities to appoint auditors:
1. by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority, but must also have independent members on it),
 2. by jointly establishing an auditor panel with other authorities,
 3. by using the services of an auditor panel established by another authority, or
 4. by delegating appointment to an Appointing Person as provided for in the Act(which would effectively continue to operate in the same fashion as the Audit Commission).
- 1.3 The purpose of this report is to inform the Audit Committee about the new arrangements and seek comments on the proposed approach, which the Audit Committee is asked to recommend to Council.

2.0 **Recommendations**

- 2.1 That Audit Committee recommends to Council that for the first round of appointments, the Council opt into the PSAA Appointing Person arrangement, subject to confirmation of the details of the scheme.

Contact Officer:

For further information on this report please contact:

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Report approved by: Bob Watson, Head of Finance shared services

3.0 Detailed Proposal

3.1 Local authority auditors have, since the mid-1980s been commissioned or been carried out by the Audit Commission. However, the Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and requires principal local authorities such as WBC and TRDC to appoint their own external auditors for the audit of the 2018/19 accounts by 31 December 2017.

3.2 There are four options for local authorities to appoint auditors:

1. by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority, but with the addition of independent members, one of whom must be the chair),
2. by jointly establishing an auditor panel with other authorities,
3. by using the services of an auditor panel established by another authority, or
4. by delegating appointment to an Appointing Person as provided for in the Act (which would effectively continue to operate in the same fashion as the Audit Commission).

3.3 Where an auditor panel is used, it must have on it at least three independent members and an independent Chair. Where a panel is shared, independence may be differently assessed for different authorities. The independent members must be appointed by full council and the council is obliged to advertise for members.

3.4 As WBC and TRDC have a shared finance service, it will be necessary in terms of the delivery of information to the auditors to have a single contract, and also more cost effective as assurance on internal audit, internal controls and systems will only need to be gained once for the two authorities.

3.5 Officers have considered the advantages and disadvantages of the four options, which are shown in more detail in appendix 1. Conclusions for each of the four options were as follows:

3.5.1 **Option 1:** The costs involved in setting up a new panel and then carrying out a procurement exercise for an auditor are expected to be significant, and the benefits of procuring locally expected to be limited. This is because the local authority audit market is a limited one (with specific registration required by providers). Neither authority is believed to have an appropriate committee because members are required to offer relevant general knowledge and experience (guidance from the Chartered Institute of Public Finance & Accountancy suggests local authority finance, accountancy, audit process and regulation, and the role and responsibility of auditors as specifically relevant areas). This option is therefore not recommended.

- 3.5.2 **Option 2:** A jointly set-up panel and procurement of an auditor with other partners could be a more attractive option than option 1, as it provides an opportunity to realise more local benefits (such as the procurement of a firm offering commitment to apprenticeships in Hertfordshire). There may also be an opportunity to realise small additional efficiencies, for example through a single assessment of the Shared Internal Audit Service. However, there would still be significant cost involved in the set-up of the panel and carrying out the procurement. Even a shared procurement is unlikely to achieve economies of scale as it would be significantly smaller than those undertaken by a national body (for example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies respectively, and achieved savings of 40% and 25%). There is also no guarantee that additional efficiencies would be achieved, or local social value commitments obtained. This option is therefore not recommended.
- 3.5.3 **Option 3:** Use of another authority's panel would effectively be a combination of options 1 and 2, keeping the flexibility (and expense) of individual procurement whilst avoiding the work involved in setting up a panel (though having to share the cost). This option would also require a suitable partner to be identified. Given the conclusions on options 1 and 2, this option is not recommended.
- 3.5.4 **Option 4:** Use of an Appointing Person as specified in the Act to appoint auditors would allow the Councils to retain the benefits of national procurement, allow local procurement resources to be focused on core business activities, and ensure the actual and perceived independence of auditors to be maximised through the separation of the Councils from decision-making. This is therefore the recommended option.
- 3.6 The decision to appoint auditors is a Council Function, as is the appointment of auditor panel members should an option involving an auditor panel be chosen. However, as the committee with responsibility for monitoring corporate governance and considering the Council's assurance framework, the opinion and recommendation of the Audit Committee is sought in advance of a Council decision.
- 3.7 Officers have consulted informally with other Hertfordshire Authorities, via the Hertfordshire Chief Finance Officers' Association. This group felt that there would be limited value in forming a shared panel and procuring locally. This means that it is unlikely that partners would be available for the pursuit of options 2 and 3, even if these were considered to offer value for money.
- 3.8 In the interim period between the abolition of the Audit Commission and this first round of appointments, audit contracts have been managed by Public Sector Audit Appointments Ltd. (PSAA).

3.9 In July 2016, PSAA was specified by the Secretary of State as an Appointing Person and will soon publish a national collective scheme for appointment (Option 4). The timescale for this scheme is currently unknown, but regulations specify that the opt-in period will last for a minimum of 8 weeks, and indications given by PSAA at the CIPFA Conference in July 2016 suggest that this is likely to be the timeframe used. Initial interest has been expressed by 200 authorities, suggesting significant economies of scale.

3.10 Given the likely short timescale for a decision, this report also seeks a recommendation to Council to proceed with the PSAA option 4, subject to the final details of the scheme. Officers' view is that this will continue to provide the best value for money as well as the most independent selection of auditors.

4.0 **Implications**

4.1 **Financial**

4.1.1 The cost of external audit shown in the 2015/16 draft accounts was £54k (TRDC) and £60k (WBC).

4.1.2 The Shared Director of Finance comments that..... *Finance comments to be inserted here.*

4.2 **Legal Issues** (Monitoring Officers)

4.2.1 Failure to appoint an auditor must be reported to the Secretary of State, who may direct an authority to appoint a named auditor or appoint an auditor on that authority's behalf.

4.2.2 The Head of Democracy and Governance comments that the 2014 Act specifies that appointment of an auditor panel and independent members to that panel are decisions to be made by full council only as is the appointment of the auditor or the decision to opt in to the Appointed Persons scheme.

If Council decides not to opt in then a panel must be set up so that auditors can be appointed by no later than 31 December 2017.

Council is required to advertise for the positions of independent members of the audit panel and one of the independent members must be chair of the panel.

4.3 **Equalities**

4.3.1 Officers will seek assurance that appropriate equalities considerations are part of the procurement process, regardless of the method selected.

4.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
The Council does not successfully appoint an auditor by 31 December 2017 deadline.	1	3	3
The cost of external audit increases significantly.	1	1	1

Appendices

Appendix 1: Advantages and Disadvantages of the four appointment options.

Background Papers

The following background papers were used in the preparation of this report and are available at the web links:

- The Local Audit and Accountability Act 2014 and associated notes and regulations: <http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted/data.htm>
- Guidance from the Chartered Institute of Public Finance & Accountancy: <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>
- Information on the PSAA Website, including prospectus for sector-led body application: <http://www.psaa.co.uk/supporting-the-transition/>

File Reference: None.

Appendix 1: Advantages and Disadvantages of the four options for appointment

These advantages and disadvantages are principally based on the CIPFA Audit Panel Guidance (see background papers):

Option	Possible Advantages	Possible Disadvantages
1a Set up own separate and individual panel to oversee separate and individual procurement	<p>Full ownership of the process</p> <p>Fully bespoke contract with the auditor</p> <p>Tendering process more based on local circumstances (within EU procurement rules)</p> <p>Option to seek specific social value commitments such as apprenticeships in Watford/Three Rivers</p>	<p>May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations</p> <p>Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions</p> <p>Will have to cover panel expenses completely</p> <p>May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers</p> <p>Will not achieve economies of scale</p> <p>Limited scope for local suppliers as public audit requires a separate registration</p>
1b Use existing committee or sub-committee	<p>Existing administrative structure in place</p> <p>Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements</p> <p>(As individual panel for procurement)</p>	<p>Will need to appoint new (sub) committee members to comply with independence regulations</p> <p>Likely to require significant training or new members to fulfil knowledge requirements</p> <p>(As individual panel for procurement)</p>
2 Set up a panel jointly with other authority/authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts	<p>Less administration than a sole auditor panel</p> <p>Will be able to share the administration expenses</p> <p>May be easier to attract suitable panel members</p> <p>Option to seek specific social value commitments such as apprenticeships in Hertfordshire</p> <p><i>If procuring a joint audit contract:</i></p> <p>May still be a relatively locally tailored process</p> <p>May be able to achieve some economies of scale</p> <p><i>If procuring separate audit contracts:</i></p> <p>An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree</p>	<p><i>If procuring a joint audit contract:</i></p> <p>May need to compromise on the arrangements or auditor contract</p> <p>May need to enter into a formal arrangement with the other authority and may be difficult to find an authority willing to enter into such an arrangement</p> <p>May not end up with first choice of auditor compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together</p> <p>Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process</p> <p>Limited scope for social value/local suppliers as public audit requires a separate registration.</p>

Option	Possible Advantages	Possible Disadvantages
3 Use another authority's panel	<p>Will not have to set up an auditor panel</p> <p>More independent option for the authority using the host authority's panel, though would need to ensure that independent members fulfil the independence criteria for both authorities</p> <p>(As joint panel for procurement)</p>	<p>The panel may not understand the specific needs of the authority</p> <p>May need to enter into a formal arrangement with the other authority and may be difficult to find an authority willing to enter into such an arrangement</p> <p>May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists)</p> <p>(As joint panel for procurement)</p>
4 Appointing Person	<p>Minimal administrative involvement required from the Authority, in procurement and contract management, allowing resources to be focused on core business activities</p> <p>Likely to offer lowest cost and most independent solution, as little to no opportunity to influence the decision</p>	<p>Very limited opportunities to express preferences and exercise control over the appointment – for example in terms of procuring other services at the same time, or making local arrangements (including social value)</p>

Report to: Audit Committee

Date of meeting: 7 December 2016

Report of: Head of Finance (shared services)

Title: Committee Work Programme

1.0 **Summary**

1.1 To review and make necessary changes to the Audit Committee's Work Programme

2.0 **Recommendations**

2.1 That the Committee considers and makes necessary changes to its Work Programme.

Contact Officer:

For further information on this report please contact: -
Bob Watson, Head of Finance (Shared Services)
Telephone extension: 7188
email: bob.watson@threerivers.gov.uk

Report approved by: Joanne Wagstaffe, Director of Finance

3.0 **Details**

3.1 The work programme is presented at each meeting of the Committee to enable any changes to be made and to provide Members with updated information on future meetings. The programme of reports scheduled to be presented to this Committee in financial year 2016/17 are shown below;

Date	Reports
16 March 2017	<ul style="list-style-type: none">▪ RIPA 2016▪ Corporate Risk Register▪ External Audit Certification Work Report 2015/16▪ Accounting Policies 2017/18▪ SIAS Internal Audit Plans 2017/18▪ Standing items

Standing items are: -

- SIAS Internal Audit Progress Report
- External Audit Progress Report – Recommendations
- Committee’s Work Programme

3.2 Attached at Appendix 1 is a list of topics that can be scheduled for discussion as part of the Committee’s Agenda business.

3.3 The annual statement accounts for the financial year 2017/18 are now subject to a revised timetable which means the draft accounts are to be produced and signed by the council’s Chief Financial Officer by 31 May. The audited accounts need to be agreed and signed by Committee by 31 July each year. Committee are asked to consider whether they require the June meeting to be slipped to the end of July or the September meeting brought forward, or indeed if they require an additional meeting in July?

4.0 **Implications**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 None Specific.

4.3 **Equalities**

4.3.1 None Specific.

4.4 **Potential Risks**

4.4.1 There are no risks associated with the decisions members are being asked to make.

The table below contains a list of proposed discussion topics for the Audit Committee and offers the opportunity to express an interest in each topic.

Topic	Led by
Audit Committee effectiveness	SIAS
Navigating SIAS audit reports	SIAS
The role of the Audit Committee in corporate governance	Governance Officer / SIAS
The role of the Audit Committee in risk management	Risk Manager / SIAS
The role of the Audit Committee with the work of external audit	External Audit
Statement of Accounts for Audit Committees	Finance
Anti-Fraud and Corruption	Anti-Fraud Team
Emerging Risks	SIAS
Oversight of Freedom of Information (where relevant)	FOI Officer
About SIAS	SIAS

Each of the above topics could be covered as a high level 'lite bite' (15 to 30 minutes) or as an extended session (45minutes to 1 hour max) prior to the commencement of each Audit Committee. The latter may involve merging some of the proposed topics.

Shorter sessions are a popular choice for Members pressed for time and not wishing to be overwhelmed by detail.

Report to: Audit Committee

Date of meeting: 7 December 2016

Report of: Sunjiv Seetul – Finance Manager and Loretta Manhertz – Finance Officer

Title: Treasury Management Update

1.0 **Summary**

1.1 This report gives details of the 2016/17 Mid-Year Review of the Treasury Management function.

2.0 **Recommendation**

2.1 That members note the contents of the 2016/17 Mid-Year Review of the Treasury Management function.

Contact Officer:

For further information on this report please contact:-

Loretta Manhertz, Finance Officer

Telephone extension: 7204

Email: Loretta.manhertz@threerivers.gov.uk

Report approved by: Bob Watson, Head of Finance, Shared Services

3.0 **Introduction and Background**

3.1 The Chartered Institute of Public Finance and Accountancy (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”.

3.2 The Council’s 2016/17 Treasury Management Strategy (TMS) as approved by Council on 28 January 2015 is designed to ensure that cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering optimising investment return.

3.3 This report considers the UK economy and updates members with the progress on whether the Council is meeting the TMS and the policies contained therein for the first 6 months of 2016/17.

4.0 **Economic Update**

4.1 **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government’s continuing austerity programme.

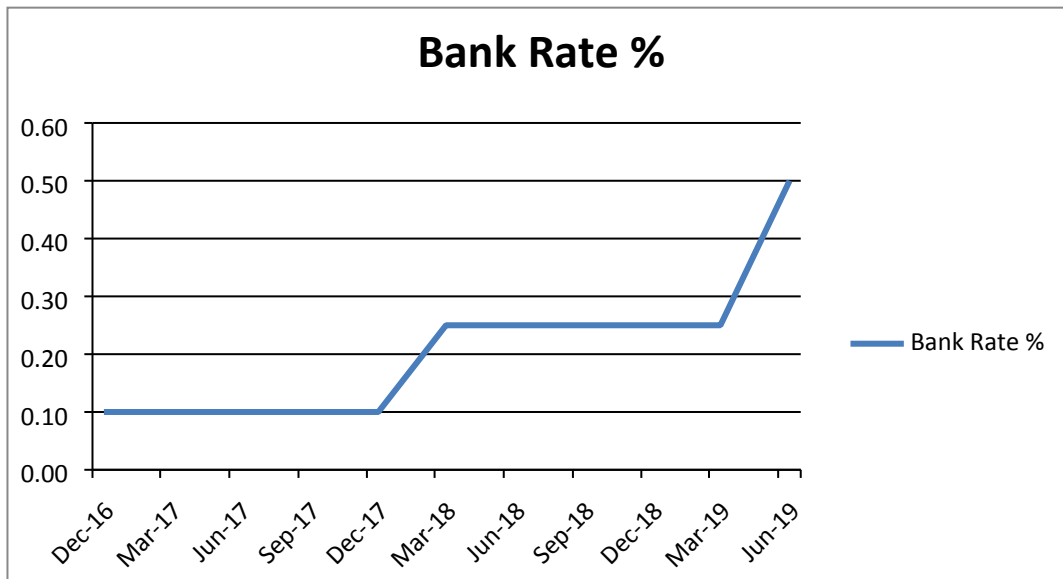
4.2 The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017. The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%.

4.3 The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

- 4.4 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.
- 4.5 **USA.** The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.
- 4.6 **EZ.** In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.
- 4.7 **Japan.** Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest rate forecasts

- 4.8 The Council's treasury advisor, Capita Asset Services, have provided the following interest rate forecasts and commentary:



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

5.0 **Property Investment Fund**

5.1 The Council is keen to increase its diversification of its treasury activities by direct property investment overseen by its Property Investment Board (PIB), which oversees all property related investments. Since inception the PIB has made a point of rationalising the Council's property assets and re-invested in less-management intensive and better yielding property assets.

5.2 The Council has no investments in pooled property funds.

6.0 Investment Portfolio

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £38.99m of investments as at 30 September 2016 (See table below). This information is reported in the monthly Members Information Bulletin.

Institution	Principal (£)
Clydesdale	2,990,000
Lloyds Bank plc	6,000,000
Santander Uk	5,000,000
Total Banks	13,990,000
Coventry Building Society	2,000,000
Nationwide Building society	9,000,000
Principality Building Society	8,000,000
Skipton Building Society	6,000,000
Total Building Societies	25,000,000
Total	38,990,000

6.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

Clydesdale Bank plc

6.4 The investment with Clydesdale is a long-standing investment made in April 2010. The Council placed funds with Clydesdale to support local businesses. When the Bank's credit rating was downgraded and it no longer met the criteria as outlined within the Treasury Management Strategy, its continuing use as counterparty has been approved by Leadership Team.

Security

6.5 The Council's maximum security risk benchmark for the current portfolio was set as 0.01% risk of default when compared to the whole portfolio.

6.6 The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where counterparty is not credit rated a proxy rating will be applied.

6.7 In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Liquidity

6.8 The Council set liquidity facilities/benchmarks to maintain:

- A zero bank overdraft
- The benefit of instant access to its funds on the general account with Lloyds.

6.9 The liquidity arrangements were adequate during the year to date.

Yield

6.10 The budget for interest earned on investments for 2016/17 is £220,000; interest received up to the end of September was £56,067.

6.11 The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.50%. The returns up to 30 September 2015 averaged 0.67%, against a benchmark rate of 0.62%.

6.12 The average yield return was higher than the benchmark for the year to date.

Table of Monthly Interest Rates to Date:

Month	Rate Achieved
Apr-16	0.67%
May-16	0.66%
Jun-16	0.67%
Jul-16	0.66%
Aug-16	0.68%
Sep-16	0.66%

6.13 The Council keeps all investments short term. There are no sums invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 months period. This has resulted in lower interest rates being achieved.

6.14 The current investment counterparty criteria selection approved in the TMS is being met.

Credit Ratings

6.15 Fitch and Moody provide the Council with credit ratings for financial institutions.

6.16 The Council keeps all investment short term. There are no sums invested for greater than 364 days. Counterparties have been downgraded over the past few years, most investments have been limited to a 6 month period. This has resulted in lower interest rates being achieved.

6.17 The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

7.0 External Borrowing

7.1 The Council’s capital financing requirement (CFR) as at 31 March 2017 is estimated to be £2.4 million. The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

7.2 Consistent with the strategy, no new borrowing has been undertaken during the first half of 2016/17. The current borrowing levels and maturity profile are set out in the table and graph below.

Prudential Indicator	2016/17 Original Estimate	Current Borrowing Position	2016/17 Revised Estimate
Capital Financing Requirement	£2.5m	£2.4m	£2.4m
External Debt / the Operational boundary			
Borrowing	£6m	£6m	£6m

Limits to Borrowing Activity

7.3 The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

7.4 The Authorised Limit

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

Authorised Limit For External Debt	2016/17 Original Indicator	Current Borrowing Position	2016/17 Revised Indicator
Borrowing	£13m	£13m	£13m

8.0 Financial Implications

8.1 As continued in the body of the report

9.0 Legal Issues (Monitoring Officer)

9.1 There is no requirement to make any amendments to the Treasury Management Strategy at this stage

10.0 Equalities

10.1 None.

11.0 Potential Risks.

11.1 There are no risks associated with the decision members are being asked to make, i.e. to note this report.

Background Papers:

Treasury Management Strategy 2016/17;
UK Economic Forecasts provided by Capita Asset Services;

Data source: Logotech Treasury Management system

Report to: AUDIT COMMITTEE

Date of meeting: 7 December 2016

Report of: Sunjiv Seetul – Finance Manager and Loretta Manhertz – Finance Officer

Title: Treasury Management Update

1.0 **SUMMARY**

1.1 This report gives details of the 2016/17 Mid-Year Review of the Treasury Management function.

2.0 **RECOMMENDATION**

2.1 That members note the contents of the 2016/17 Mid-Year Review of the Treasury Management function.

Contact Officer:

For further information on this report please contact:-

Loretta Manhertz, Finance Officer

Telephone extension: 7204

Email: Loretta.manhertz@threerivers.gov.uk

Report approved by: Bob Watson, Head of Finance, Shared Services

3.0 **Introduction and Background**

3.1 The Chartered Institute of Public Finance and Accountancy (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”.

3.2 The Council’s 2016/17 Treasury Management Strategy (TMS) as approved by Council on 28 January 2015 is designed to ensure that cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering optimising investment return.

3.3 This report considers the UK economy and updates members with the progress on whether the Council is meeting the TMS and the policies contained therein for the first 6 months of 2016/17.

4.0 **Economic Update**

4.1 **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government’s continuing austerity programme.

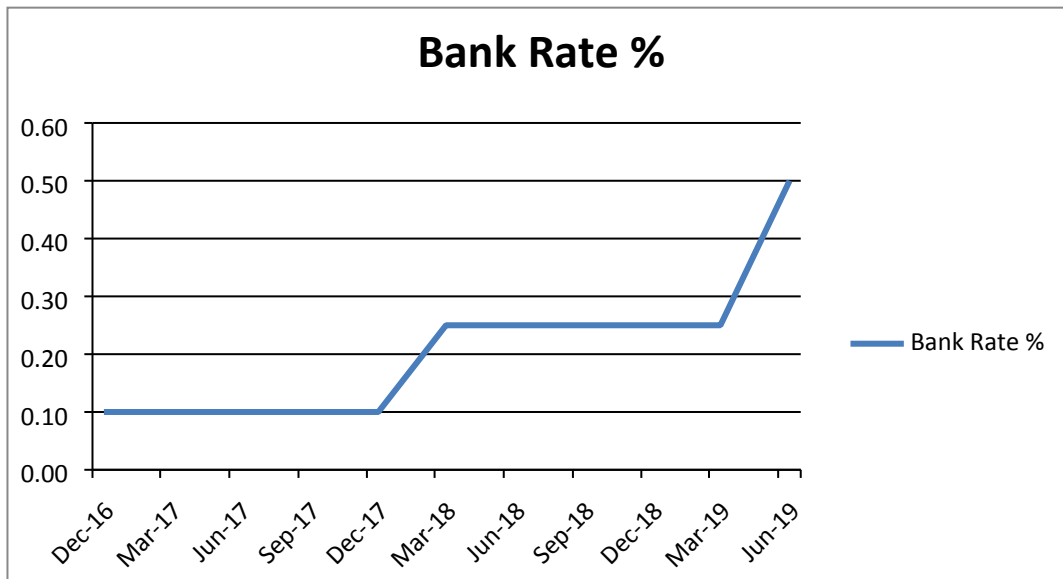
4.2 The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017. The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%.

4.3 The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

- 4.4 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.
- 4.5 **USA.** The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.
- 4.6 **EZ.** In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.
- 4.7 **Japan.** Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest rate forecasts

- 4.8 The Council's treasury advisor, Capita Asset Services, have provided the following interest rate forecasts and commentary:



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

5.0 **Property Investment Fund**

5.1 The Council is keen to increase its diversification of its treasury activities by direct property investment overseen by its Property Investment Board (PIB), which oversees all property related investments. Since inception the PIB has made a point of rationalising the Council's property assets and re-invested in less-management intensive and better yielding property assets.

5.2 The Council has no investments in pooled property funds.

6.0 Investment Portfolio

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £38.99m of investments as at 30 September 2016 (See table below). This information is reported in the monthly Members Information Bulletin.

Institution	Principal (£)
Clydesdale	2,990,000
Lloyds Bank plc	6,000,000
Santander Uk	5,000,000
Total Banks	13,990,000
Coventry Building Society	2,000,000
Nationwide Building society	9,000,000
Principality Building Society	8,000,000
Skipton Building Society	6,000,000
Total Building Societies	25,000,000
Total	38,990,000

6.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

Clydesdale Bank plc

6.4 The investment with Clydesdale is a long-standing investment made in April 2010. The Council placed funds with Clydesdale to support local businesses. When the Bank's credit rating was downgraded and it no longer met the criteria as outlined within the Treasury Management Strategy, its continuing use as counterparty has been approved by Leadership Team.

Security

6.5 The Council's maximum security risk benchmark for the current portfolio was set as 0.01% risk of default when compared to the whole portfolio.

6.6 The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where counterparty is not credit rated a proxy rating will be applied.

6.7 In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Liquidity

6.8 The Council set liquidity facilities/benchmarks to maintain:

- A zero bank overdraft
- The benefit of instant access to its funds on the general account with Lloyds.

6.9 The liquidity arrangements were adequate during the year to date.

Yield

6.10 The budget for interest earned on investments for 2016/17 is £220,000; interest received up to the end of September was £176,300.

6.11 The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.50%. The returns up to 30 September 2016 averaged 0.67%, against a benchmark rate of 0.58%.

6.12 The average yield return was higher than the benchmark for the year to date.

Table of Monthly Interest Rates to Date:

Month	Rate Achieved
Apr-16	0.67%
May-16	0.66%
Jun-16	0.67%
Jul-16	0.66%
Aug-16	0.68%
Sep-16	0.66%

6.13 The Council keeps all investments short term. There are no sums invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 months period. This has resulted in lower interest rates being achieved.

6.14 The current investment counterparty criteria selection approved in the TMS is being met.

Credit Ratings

6.15 Fitch and Moody provide the Council with credit ratings for financial institutions.

6.16 The Council keeps all investment short term. There are no sums invested for greater than 364 days. Counterparties have been downgraded over the past few years; most investments have been limited to a 6 month period. This has resulted in lower interest rates being achieved.

6.17 The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

7.0 External Borrowing

7.1 The Council’s capital financing requirement (CFR) as at 31 March 2017 is estimated to be £2.4 million. The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

7.2 Consistent with the strategy, no new borrowing has been undertaken during the first half of 2016/17. The current borrowing levels and maturity profile are set out in the table and graph below.

Prudential Indicator	2016/17 Original Estimate	Current Borrowing Position	2016/17 Revised Estimate
Capital Financing Requirement	£2.5m	£2.4m	£2.4m
External Debt / the Operational boundary			
Borrowing	£15m	£15m	£15m

Treasury Management Indicators

7.3 The Authorised Limit

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

Authorised Limit For External Debt	2016/17 Original Indicator	Current Borrowing Position	2016/17 Revised Indicator
Borrowing	£20m	£7.5m	£20m

7.4 **Actual External Debt**

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end. There has been no change in external borrowing. The council has complied with this prudential indicator at mid-year and does not envisage difficulties for the future.

8.0 **Financial Implications**

8.1 As continued in the body of the report

9.0 **Legal Issues (Monitoring Officer)**

9.1 There is no requirement to make any amendments to the Treasury Management Strategy at this stage

10.0 **Equalities**

10.1 None.

11.0 **Potential Risks.**

11.1 There are no risks associated with the decision members are being asked to make, i.e. to note this report.

Background Papers:

Treasury Management Strategy 2016/17;
UK Economic Forecasts provided by Capita Asset Services;

Data source: Logotech Treasury Management system

DRAFT -

**AUDIT COMMITTEE – 07 DECEMBER 2016
BUDGET PANEL – 10 JANUARY 2017
CABINET – 16 JANUARY 2017
COUNCIL – 24 JANUARY 2017**

PART I – NOT DELEGATED

12. FINANCIAL PLANNING - TREASURY MANAGEMENT (DoF)

1. Summary

1.1 The purpose of this report is to enable Audit Committee, Budget Panel and then Cabinet to recommend to Council its Treasury Management Strategy Statement.

2. Details

2.1 The Chartered Institute of Public Finance and Accountancy (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”.

2.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

3. Treasury Management Strategy Statement 2017/18 – 2019/20

3.1 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council’s risk appetite, considering security and liquidity before investment return.

3.2 The Treasury Management Strategy Statement for 2017/18 to 2019/20 is attached at Appendix 1.

3.3 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year with a view to maximise the Council’s returns without significantly increasing risk.

4. **Policy/Budget Implications**

- 4.1 Returns on investments provide a source of income that contributes to the Council's medium term financial plan.

5. **Legal, Staffing, Environmental, Community Safety, Customer Services Centre, and Website Implications**

- 5.1 It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

6. **Financial Implications**

- 6.1 Decisions in respect of Treasury Management will affect the Council's ability to achieve the budgets set for investment returns. The strategy appended to this report is consistent with the estimates included in the Medium Term Financial Strategy, but should Council wish to pursue a lower risk strategy an additional budget pressure might be created.

7. **Risk Management Implication**

- 7.1 The strategy details the approach taken to management of Treasury Risk. This is principally through ensuring that the main Treasury risks are managed. These risks are:

- liquidity risk – that the Council may not have the cash it needs on a day to day basis to pay its bills. This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board, the Council is able to access short term borrowing, usually within 24 hours.
- interest rate risk – that the costs and benefits expected do not materialise due to changes in interest rates. This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).
- exchange rate risk – that losses or gains are made due to fluctuations in the prices of currency. The Council does not have any significant non-Sterling transactions.
- credit and counterparty risk – that the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited
- refinancing risk – that the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.
- legal and regulatory risk – that the Council operates outside its legal powers. This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.
- fraud, error and corruption – that risk that losses will be caused by impropriety or incompetence is managed through the controls in the Council's financial procedures.

For example, the segregation of duties between those making investment decisions and those transferring funds

- market risk – that the price of investments held fluctuates, principally in secondary markets. The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

8. Recommendation

8.1 That this report be noted.

Background Papers:

UK Economic Forecasts provided by Capita Asset Services Treasury Solutions;
The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2013 Edition);
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectorial Guidance Notes (2011 Edition);
CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition);
DCLG Guidance on Local Government Investments (2010 Edition);

Report prepared by:

Sunjiv Seetul – Finance Manager

Data checked by: Bob Watson – Head of Finance

Data rating:

1	Poor	
2	Sufficient	
3	High	✓

APPENDICES / ATTACHMENTS

Appendix 1	Treasury Management Strategy Statement 2017/18 – 2019/20
Annex A	Treasury Management Practice (TMP1) Credit and Counterparty Risk Management
Schedule 1	Details of the ratings criteria and counterparty exposure limits

TREASURY MANAGEMENT STRATEGY STATEMENT 2017 – 2020

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates the approved indicators. Within this overall prudential framework there is an impact on the Council's treasury management function as it can directly impact on borrowing or investment decisions. As a consequence the treasury management strategy for 2016/17 to 2019/20 is included.

2.0 The Capital Plans and Prudential Indicators 2017/18 – 2019/20

The Council's capital expenditure plans are one of the key drivers of the treasury management function. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 The Council's Capital Position

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the total capital expenditure forecasts within the proposed capital expenditure programme.

	2015/16 Actual	2016/17 Latest Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total Capital Expenditure	£7.7m	£22.9m	TBC	TBC	TBC

The capital expenditure programme is financed by a combination of capital receipts, capital grants or use of reserves. The Council is also permitted to borrow to finance its capital programme, provided that the borrowing is prudent, affordable and sustainable. Over the next three years there are no planned shortfalls in the level of resources which would result in a need to borrow externally, however it is always good practice to review the future borrowing requirements and if necessary borrow at the most prudent time based on expectations of need and future rates.

2.2 The Council's Borrowing Need - The Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. This includes expenditure on alternative types of investment (such as properties, where these are included in the capital programme) and on schemes, such as the Watford Health Campus, which will require funding for a period before making returns to the Council.

Following accounting changes, the CFR also includes any other long term liabilities (e.g. finance leases) that have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below (to be updated as the capital investment programme for 2016-20 is prepared):

	2015/16 Actual	2016/17 Forecast	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total CFR	£2.5m	£2.4m	£2.3m	£2.2m	£2.1m
Adjustment A	£2.5m	£2.4m	£2.3m	£2.2m	£2.1m
Net CFR	nil	nil	nil	nil	nil
Movement in the CFR*	£0.1m	£0.1m	£0.1m	£0.1m	£0.1m

* Includes MRP and/or voluntary contributions to reduce the CFR

The Council complies with the regulations which allow authorities to continue to not make an MRP known as Adjustment A. This adjustment was designed to ensure, as was the Government's policy aim, that the move in 2004 to the Prudential system did not in and of itself increase any authority's MRP liability. Any new capital expenditure if unfunded and requiring credit cover above adjustment A would however need to generate a MRP, subject to the Council's MRP Strategy Statement (below).

2.3 Minimum Revenue Provision (MRP) Strategy and Policy Statement

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

Communities and Local Government Regulations require the Council to approve an MRP Statement in advance of each year. The Council has a statutory duty to ensure that this MRP policy makes prudent revenue provision. Council is recommended to approve the following MRP statement:

The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

Watford Borough Council's policy is therefore to produce, for approval by the Director of Finance in consultation with the Executive Member, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over the which the expenditure provides benefits or makes returns.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure, for internal borrowing (where cash is 'borrowed' from reserves rather than externally), or (for revenue reserves only) in support of the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources such as further disposals, grants, and so on.

The Property Investment Board will play an important role in optimising returns on capital investments. Subject to each business case, where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then Council is asked to approve the flexibility required to invest Council funds accordingly.

3.0 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are regulated by statutory requirements and the CIPFA Code of Practice on Treasury Management. The Council has adopted a Treasury Management Policy Statement in accordance with the code of practice.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity over the medium term. A key requirement is to explain the risks associated with the treasury service. Further treasury reports are produced after the year-end to report on actual activity for the year and a mid-year monitoring update. This strategy covers:

- The current portfolio position;
- The borrowing strategy;
- Annual investment strategy;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Reporting requirements;
- Policy on use of external service providers;
- Training of Officers and Members.

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service delivery. This will involve the organisation of both cash flow and the use of appropriate short-term borrowing facilities if required. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's current treasury portfolio position at 31 December 2016, with forward projections are summarised below.

Treasury Portfolio	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Borrowing	£7.5m	£7.5M	TBC	TBC	TBC
Total Investments 31 March	£45m	TBC	TBC	TBC	TBC

The external borrowing relates to:

a) The Growing Places Funding from the Hertfordshire Local Enterprise Partnership (LEP) was received in July 2013 and is due to be repaid in March 2020. The money has been paid over to the LABV (Local Asset Backed Vehicle) to finance the infrastructure phase of the Watford Health Campus. The development zones will pay back the loan as they are completed.

b) £1.5m loan from LEP to part fund the redevelopment of Zone A in Watford Business Park which is due to be repaid in March 2020. The loan is being used to finance the development of new Industrial units in Caxton Way which are expected to be completed in 2017/18.

The Council held £30m of investments as at 31 October 2016. An Interest rate of 0.50% was paid on credit balances on the current account (until 3 Aug 2016) and is currently 0.25% in line with the current bank rate. This information is reported in the monthly Members Information Bulletin.

Institution	Principal (£)
<i>Banks</i>	
Clydesdale Bank Plc	2,990,000
Lloyds Bank Plc	6,000,000
Santander UK Plc	5,000,000
Total	20,490,000
<i>Building Societies</i>	
Coventry Building Society	2,000,000
Nationwide Building Society	3,000,000
Principality Building Society	5,000,000
Skipton Building Society	6,000,000
Total	16,000,000
Grand Total	30,990,000

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

Monthly Interest Rates to the end of December 2016

Month	Rate Achieved
April	0.76%
May	0.76%
June	0.79%
July	0.79%
August	0.75%
September	0.72%
October	0.70%
November	<i>To be updated</i>
December	<i>To be updated</i>

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.33%. The returns up to 31 October averaged 0.75% (to be updated to 31 Dec 16), against a benchmark rate of 0. % (update to 31 Dec 16). The average yield return is higher than the benchmark for the year to date. In accordance with its risk appetite, the Council tends to keep the majority of investments short-term (not greater than 364 days).

The budget for interest on investments for 2016/17 is £220,000; interest received up to the end of October was £176,000 and it is forecast the interest budget will be achieved.

3.2 Prospects for Interest Rates

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%

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

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

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

3.3 Treasury Indicators: Limits to Borrowing Activity

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year

plus the estimates of CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

3.3.1 Treasury Management Indicator - The Operational Boundary

This is the limit which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. It is not currently expected that the Council will need to borrow, this limit represents a contingency should the need arise.

As the council already has loan of £7.5m from the LEP, there are no plans to borrow for other capital purposes in the next three years; it would be prudent to set the operational boundary at £15m to allow scope for additional borrowing should it be required to fulfil the Council's objectives to optimise returns on investments or to allow the Council to manage its cash-flow.

Operational Boundary	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£15M	£15M	£15M	£15M

3.3.2 Treasury Management Indicator - The Authorised Limit for External Borrowing

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£20M	£20M	£20M	£20M

3.3.3 Treasury Management Indicator – Actual External Debt

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals within this report regarding future external borrowing.

3.4 Borrowing Strategy

Although at this stage there is no requirement to borrow externally over the medium term, the Council has a number of regeneration projects for which support, through borrowing, has been provided by the Hertfordshire LEP. Any further external borrowing requirements which are not simply for short term cash-flow will be reported to Members at the appropriate time.

3.5 Annual Investment Strategy

3.5.1 Key Objectives

The Council's investment strategy's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk.

3.5.2 Investment Policy

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

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.

3.5.3 Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- 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.

The Director of Finance 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 and will provide an overall pool of counterparties considered high quality.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers as they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.

- **Banks 2 – The Council’s Own Banker**
For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
- **Building Societies**
The Council will use all Societies which meet the ratings for banks outlined above or are eligible institutions and have assets in excess of limits for each category.
- **Specific Public Bodies**
The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.
- **Money Market Funds AAA Rated**
The Council may lend to Money Market Funds in order to spread its investment risk.
- **Local Authorities**
A limit per authority will be applied as per Annex A.
- **Debt Management Deposit Account Facility**
A Government body which accepts local authority deposits.
- **Council Subsidiaries (non-Specified)**
The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met.

For details of Specified and Non-Specified Investments see below.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council’s Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in “normal” market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

3.5.4 Investment Strategy

In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations:

Bank rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019/20. Bank rate forecasts for financial year ends (March) are:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%

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

Treasury Indicator & Limit	2016/17	2017/18	2018/19	2019/20
Maximum Principal Sums invested for greater than one year	£5m	TBC	TBC	TBC

3.5.5 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the Treasury Management Strategy, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Security

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors). Where investments are made to Council Subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £3m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield

The measure of yield on Investments is a return of 0.12% above average bank rate. In accordance with the Code of Practice on Treasury Management which is used as a performance indicator. The results of this indicator for the year will be reported in the Treasury Annual Report.

3.6 Reporting Requirements

End of Year Investment Report - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

Mid-year Investment Report – the Council will report on its investment activity for that financial year as part of its Mid Year Treasury Management Report at the end of September of that financial year.

Treasury Management Strategy – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

3.7 Policy on the Use of External Service Providers

The contract for external treasury management advisors has been re-tendered in October 2016, and following this, Capita Asset Services Treasury Solutions have been appointed as the advisors to the Council until October 2019. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It 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.

The Council will also, from time to time, procure specialist advice (such as for the verification of business cases for loans to Council subsidiaries). This work will be procured in accordance with the Council's normal procedure rules.

3.8 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by email and face to face with the Council's consultants;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

The DCLG issued a reviewed Investment Guidance in 2010 (second edition), and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMP's) guidance.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

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

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £1,000m. Non rated Building Societies are non-specified investments.
4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at **Schedule 1**.

Exception - Clydesdale Bank plc

The investment with Clydesdale is a long-standing investment made in April 2010. The Council placed funds with Clydesdale to support local businesses. When the Bank's credit rating was downgraded and it no longer met the criteria as outlined within the Treasury Management Strategy, its continuing use as a counterparty has been approved by Leadership Team. At the time of the report Clydesdale bank plc had the following credit ratings by Fitch, Standard and Poors and Moody's respectively: short term F-1, A-2 and P-2 and long term A, BBB+ and Baa2 respectively.

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

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
b.	The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these types of investments to £2m for up to six months.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m
e.	Loans to Council Subsidiaries The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.	£5m
f.	Other unspecified investments The strategy allows the Portfolio Holder, in consultation with the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of	£10m

	to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified investments, subject to conditions which will be generally similar to (e).	
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In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of categories d to f this will only be considered after obtaining external advice and subsequent Member approval.

The Council will also consider investment in property in accordance with its Property Investment Strategy (to be developed). All property investments will be dependent on a standalone business case being proven. The Council will always seek advice from its retained advisors as to the levels of core funds that can prudently be invested in property.

The Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

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Institution Type	Max Amount:			£5m	£10m	£10m	£10m	£10m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
Minimum Short Term Ratings								
	Fitch	Moody's	S&P					
UK Banks								
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £15,000m	Assets over £5,000m	Assets of £2,500m	Assets of £1,000m
Specific Public Bodies				As approved by Members				
Debt Management Deposit Facility (UK Government)						Unlimited		
Money Market Funds (AAA Rated)								£5m per fund
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not	£10m per local authority.			

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

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