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AUDIT COMMITTEE

Date: Wednesday, 12 September 2018
Time: 6.00pm,
Location: Shimkent Room - Shimkent Room - Daneshill House, Danestrete
Contact: Guy Moody 01438 242703
committees@stevenage.gov.uk

Members: Councillors: M McKay (Chair), J Gardner (Vice-Chair), H Burrell, L Chester, D Cullen, G Lawrence, J Lloyd and G Snell.

Independent Member: Mr G Gibbs

AGENDA

PART 1

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 12 JUNE 2018

To approve as a correct record the minutes of the meeting of the Committee held on 12 June 2018.
Pages 3 – 8

3. MINUTES - 26 JULY 2018

To approve as a correct record the minutes of the meeting of the Committee held on 26 July 2018.
Pages 9 – 12

4. LOCAL GOVERNMENT AUDIT BRIEFING

To note the Local Government Briefing Paper for Quarter 2 prepared by Ernst and Young.
Pages 13 – 26

5. ANNUAL AUDIT LETTER

To consider the Annual Audit letter from Ernst and Young.
Pages 27 – 52

6. SHARED INTERNAL AUDIT SERVICE ANNUAL REPORT 2017/18

To consider the Shared Internal Audit Service (SIAS) Annual Report 2017/18.
Pages 53 – 66

7. SHARED INTERNAL AUDIT SERVICE PROGRESS REPORT 2018/19

To consider the Shared Internal Audit Service (SIAS) Progress report for 2018/19 up to 31 August 2019.
Pages 67 – 92

8. ANNUAL TREASURY MANAGEMENT REVIEW 2017/18 INCLUDING PRUDENTIAL CODE

To consider the Annual Treasury Management Review 2017/18.
Pages 93 – 108

9. URGENT PART I BUSINESS

To consider any Part I business accepted by the Chair as urgent.

10. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in paragraphs1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.

2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

11. PART II MINUTES - AUDIT COMMITTEE - 12 JUNE 2018

To approve as a correct record the Part II section of the minutes of the meeting of the Committee held on 12 June 2018.
Pages 109 - 110

12. STRATEGIC RISK REGISTER

To note the latest Strategic Risk Register for Stevenage Borough Council and developments on risk management issues.
Pages 111 - 140

13. URGENT PART II BUSINESS

To consider any Part II business accepted by the Chair as urgent.

NOTE: Links to Part 1 Background Documents are shown on the last page of the individual report, where this is not the case they may be viewed by using the following link to agendas for Executive meetings and then opening the agenda for Wednesday, 12 September 2018 – http://www.stevenage.gov.uk/have-your-say/council-meetings/161153/

Agenda Published 4 September 2018

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Tuesday, 12 June 2018
Time: 6.00pm
Place: Shimkent Room - Daneshill House, Danestrete

Present:	Councillors: Maureen McKay (Chair), John Gardner (Vice-Chair). Howard Burrell, David Cullen, Graham Lawrence, John Lloyd and Graham Snell.
In attendance:	C Wood and S Martin (Shared Internal Audit Service) N Jennings (Shared Anti-Fraud Service)
Start / End Time:	Start Time: 6.00pm End Time: 7.40pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

An apology for absence was received from Councillor L Chester.

There were no declarations of interest.

S Martin was introduced to the meeting as the new Client Audit Manager for the Shared Internal Audit Service.

2 APPOINTMENT OF VICE-CHAIR

It was moved, seconded and **RESOLVED** that Councillor J Gardner be elected to serve as Vice-Chair of the Audit Committee for the municipal year 2018/2019.

3 TERMS OF REFERENCE

It was **RESOLVED** that the Terms of Reference are noted.

4 MINUTES OF PREVIOUS MEETING

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 26 March 2018 are approved as a correct record and signed by the Chair.

5 ANNUAL GOVERNANCE STATEMENT 2017/18

The Committee received a report which advised on the content of the Council's Annual Governance Statement for 2017/18 following the review of the effectiveness of the Council's system of internal control and governance arrangements.

The Chair complimented Officers for the clarity of the report.

In reply to a question concerning potential learning points from the difficult financial situation faced by a neighbouring authority the Committee was advised that Hertfordshire County Council had prepared a summary of events. The Committee requested that a copy of the summary be made available to Members.

It was **RESOLVED** that the Council's 2017/18 Annual Governance Statement, as attached to the report at Appendix One, is recommended for approval by the Statement of Accounts Committee.

6 STEVENAGE BOROUGH COUNCIL 2017/18 ANTI-FRAUD REPORT

The Committee received the Council's 2017/18 Anti-Fraud Report.

The Committee was advised that all targets except for one (success rates for cases investigated) had been achieved and that targets had been stretched for 2018/19.

The Committee was further advised that the percentage of allegations of fraud reported by staff were higher than in similar authorities and this reflected positively on the attitudes of staff working for the Council.

Members then asked a number of questions about the process for determining whether an allegation of fraud should be investigated.

In reply the Committee was advised that once an allegation of fraud had been received it would be reviewed and pursued if appropriate. It was confirmed that if a recommendation to prosecute was made it would usually be followed after consultation with the legal team.

In reply to a further question concerning learning points it was confirmed that the investigation process identified methods to prevent recurrences of that type of fraud.

It was **RESOLVED** that the report is noted.

7 SHARED INTERNAL AUDIT SERVICE - PROGRESS REPORT

The Committee received the Internal Audit Progress Report for the period to 25 May 2018.

The Client Audit Manager advised the Committee that since the publication of the report the percentage of actual billable days had increased to 19% and that a further audit report had been issued.

The Committee was further advised of 3 potential new high priority recommendations including one relating to Cyber Security.

Members raised a number of issues concerning the Council's ICT service and the Committee was advised that a number of initiatives were underway to cleanse data and reduce the amount of storage capacity required together with a plan to implement the recommendations of the latest cyber security audit.

In reply to a question it was confirmed that the Council's IT 'patching' regime was up to date.

It was **RESOLVED** that the report be noted.

8 STEVENAGE BOROUGH COUNCIL 2017/18 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT

The Committee received the Council's 2017/18 Annual Assurance Statement and Internal Audit Report.

The Committee was advised that two minor amendments had been made to the Audit Charter. Paragraph 1.1 of the Charter had been amended to reflect any potential public interest in risk management, control and government arrangements whilst paragraph 8.2 had been amended to include all Members as interested parties in overseeing the effectiveness of SIAS.

In reply to a question the Assistant Director (Finance and Estates) confirmed that the scope and resources for internal audit were subject to no inappropriate limitations in 2017/18.

In reply to a question concerning the timescale for implementing high priority recommendations the Committee was advised that the Assistant Director of the relevant business unit was responsible for the individual action plan for implementation and that the action plan would include timescales for completion. Any slippage against the plan would be documented.

In reply to a further question concerning targets and key performance indicators the Committee was advised that Senior Leadership Team reviewed targets and indicators annually on a challenge / test basis. It was acknowledged however that some targets were based on national targets.

It was **RESOLVED** that:

1. The Annual Assurance Statement and Internal Audit Annual Report are noted.

2. The results of the self-assessment, as required by the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme are noted.

3. The SIAS Audit Charter is accepted.

4. Assurance be sought from management that the scope and resources for internal audit were not subject to inappropriate limitations in 2017/18.

9 URGENT PART 1 BUSINESS

See Minute 10 below.

10 **ANNUAL FEE LETTER 2018/19**

URGENT PART I ITEM - ANNUAL AUDIT FEE LETTER 2018/19

Due to an administrative error this report had not been circulated five clear days before the meeting (nor was it available for public inspection for that time). The Chair agreed that the item was accepted as urgent as the next meeting of the Committee is not until September 2018.

The Committee was advised that the External Auditor's fee for 2016/17 had been challenged and taken to arbitration. The Assistant Director (Finance and Estates) undertook to inform the Committee of the decision of the arbitration panel once known.

It was **RESOLVED** that the report is noted.

Councillors H Burrell and J Gardner left the meeting at the conclusion of this item.

11 **EXCLUSION OF PUBLIC AND PRESS**

It was **RESOLVED** that:

1. Under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as described in paragraphs 1-7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.

2. Members having considered the reasons for the following report being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

12 **STRATEGIC RISK REGISTER**

The Committee received the Council's latest Strategic Risk Register.

It was **RESOLVED** that the report is noted.

13 **URGENT PART II BUSINESS**

12a REPAIRS AND VOIDS SERVICE

This report had not been circulated five clear days before the meeting. The Chair agreed that the item is accepted as urgent given the requirement for the report to be considered alongside the SIAS progress report at item 7 on the agenda.

Members asked a number of questions about the report which were answered by the Officer.

It was **RESOLVED** that:

1. The report is noted.

2. The service responses are noted.

3. The actions that are being implemented in conjunction with the recommendations of the audit are endorsed.

CHAIR

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STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Thursday, 26 July 2018
Time: 6.00pm
Place: Shimkent Room - Shimkent Room - Daneshill House, Danestrete

Present:	Councillors: Maureen McKay (Chair) (Chair), John Gardner (Vice-Chair) (Vice Chair), Howard Burrell, Laurie Chester, David Cullen, John Lloyd and Graham Snell
Start / End Time:	Start Time: 6.00pm End Time: 7.15pm

1 **APPOINTMENT OF PERSON TO PRESIDE**

It was **RESOLVED** that Councillor Maureen McKay be appointed to preside over the part of the meeting that was held jointly with the Statement of Accounts Committee.

2 **APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

Apologies for absence were received from Councillor G Lawrence and Independent Member G Gibbs.

There were no declarations of interest.

3 **2017/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT**

The Audit Committee and the Statement of Accounts Committee meeting jointly received a presentation from the Accountancy Services Manager on the Statement of Accounts 2017/18.

The Committees were advised of a typographical error on page 176 of the agenda pack. The figures in the left hand column of table HRA 4 should read 4921, 591 and 5512 and not 4921139, 590986 and 5512125 as shown.

A copy of appendix 2 to the report, the Letter of Representation was then circulated to Members.

In reply to a question concerning Right To Buy 'one for one receipts' the Committees were advised that the amount held by the Council had accrued as the result of a higher than expected number of sales. It was confirmed that the sum had been earmarked for housing projects.

The issue of the disparity in the valuation of the swimming pool was raised and Members were advised of the process behind each of the valuations. The External Auditor confirmed that the difference in the valuations was not a material consideration for the accounts and did not affect the overall audit opinion of the accounts.

A Member requested that the Officers Remuneration table on page 160 of the agenda be amended in future years to make it clearer that the table included redundancy payments and didn't just relate to pay. Concerns were expressed that the information as currently presented could be misread as overstating the number of higher paid employees.

The Committees then considered the report from the Council's External Auditors EY.

The Committees were advised that all outstanding audit tasks had been completed and that EY had issued an unqualified audit opinion for both the Council's accounts and the Value for Money statement.

In reply to a question it was confirmed that an unqualified opinion was a positive result for the Council's accounts.

In reply to a further question the Committees were advised that it was not usual practice to forward a copy of the External Auditor's report to Central Government.

Note – *At this point in the meeting the Statement of Accounts Committee* ***RESOLVED*** *to adjourn until the rise of the Audit Committee.*

With regard to the valuation of the swimming pool Members expressed a wish for a standard approach to be taken in future years and requested that this view be fed back to the Statement of Accounts Committee. Members were advised that the Council's valuer's methodology may differ from that of the External Auditors.

In reply to a question concerning the monitoring of savings and what the Auditors reviewed for the value for money statement, the Assistant Director (Finance & Estates) advised the Committee that the External Auditors received copies of the Quarterly Monitoring Reports that were presented to the Executive which reports on the progress of savings options approved.

In reply to a further question concerning the assessment of the risks with regard to Town Centre Regeneration the External Auditor advised the Committee that the professional advice taken by the Council had been noted by the auditors.

The Chair requested that the Committee's thanks be recorded in the minutes for both the External Auditor and the SBC Accounts Team.

It was **RESOLVED:**

1. That the differing valuations of the swimming pool be noted and the comment regarding a standard approach be reported to the Statement of Accounts Committee.

2. That the Annual Report to those charged with Governance for 2017/18, the Council's Letter of Representation, the Financial Report including the Statement of Accounts 2017/18 and the Annual Governance Statement be recommended to the Statement of Accounts Committee for approval.

4 **URGENT PART 1 BUSINESS**

None.

5 **EXCLUSION OF PUBLIC AND PRESS**

Not required.

6 **URGENT PART II BUSINESS**

None.

CHAIR

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Part I – Release to Press

STEVENAGE BOROUGH COUNCIL

Agenda item:

Meeting Audit Committee

Portfolio Area Resources

Date 12 September 2018

LOCAL GOVERNMENT AUDIT BRIEFING

The Ernst & Young Local Government Audit Briefing is attached.

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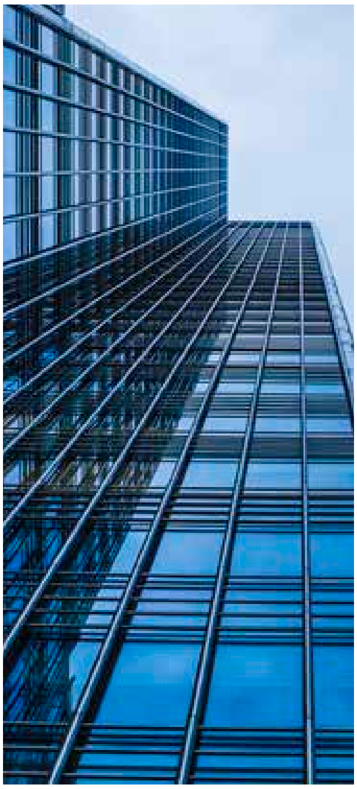
Local government audit committee briefing

EY
Building a better working world

Contents at a glance



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY ITEM Club — Local Government Economic Briefing Q2, May 2018

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important. The briefing covers three main areas:

Continued economic pressures in 2018

Local authorities are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence local authority decision making in the year ahead:

- The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

Positive Signs for some on business Rates Retention

A recent study by the Institute for Fiscal Studies (IFS) has reignited the debate about the potential financial implications associated with 100% business rates retention. The IFS study forecasts that councils included in the 100% retention pilot scheme will gain an additional £870mn in funding next year as a result, representing an approximate 3.6% increase in their collective spending power.

Whilst this provides an incentive to councils for growing their local economies, critics argue that areas less able to generate business income may become vulnerable to funding constraints. For example, the IFS forecasts suggest that London councils could gain £430mn (£49 per person, or 4.9% of core spending power) from the scheme, compared to a gain of just £2.5mn (£5 per person, or 0.6% of core spending power) in Liverpool. As a result, these estimates suggest that Liverpool City Council would have derived a greater financial benefit if total gains made by pilot authorities had been distributed nationally on the basis of relative needs.

One of the primary concerns regarding distributional impacts is the potential lack of correlation between local authority spending needs and the perceived potential for business rates growth. Further analysis is required to determine the potential impact of rate retention in light of where local authority funding needs may emerge in the years to come.

Mitigating the risk of market failure in health and care systems

Allied Healthcare, one of the country's largest home care providers, has successfully agreed a Company Voluntary Arrangement (CVA) allowing it to agree a payment plan with its creditors.

Changes to the Care Act, which came into effect in 2015, means that if a provider like Allied were to stop trading, local authorities would need step in to protect individuals receiving care. This demonstrates the need for a continued focus on the successful integration of care and the role of local authorities in leading this transformation is paramount.

Data is a fundamental enabler to the successful integration of health and social care; it also presents one of the areas of greatest complexity. Key stakeholders across health and social care systems should recognise the role of sharing data in minimising the risk of information asymmetry. Focus is already being applied to establishing platforms that allow market participants to share data not just on an individual's care needs, but also on broader lifestyle data. Whilst this has the potential to allow for the use of transformative technologies such as artificial intelligence, it also has the potential to support more effective pricing and resource allocation, leading to the better functioning of the health and care market.

NAO Report Financial sustainability of local authorities 2018

In March 2018 the National Audit Office (NAO) published a report Financial sustainability of local authorities 2018. The scope of the report was to review developments within the sector and to understand the impact of funding reductions on the service and financial sustainability for local authorities. One of the key findings of the report was that there had been a real-terms reduction in local authority spending power by 29% between 2010–11 and 2017–18.

Spending on services that have significant statutory responsibilities, such as adult social care have only seen a reduction in spending of 3% in real terms; whereas in contrast spending on more discretionary areas, such as planning, housing services, highways and cultural related services, have seen a greater reduction of spending between 35% to 53% in real terms. These spending reductions have seen reductions in front lines services such as weekly domestic waste collection (reduced by 34% between 2010–11 and 2016–17) and numbers of libraries (reduced by 10% between 2010–11 and 2016–17).

Another key finding of the NAO report is that the many local authorities are relying on using their reserves to fund the provision of services, which is not sustainable. The report found that 11% of single-tiered and county councils had the equivalent of less than three years' worth of total reserves if they continued to use their reserves at the rate they did in 2016–17. Therefore achieving strong financial resilience is imperative to maintaining the financial sustainable of the provision of services by local authorities. Northamptonshire County Council issued a s114 notice in February 2018, indicating that it was at risk of spending more in the financial year than it had resources available. This highlights the increased risk of financial sustainability for local authorities.

Accounting, auditing and governance

IFRS 9: Financial Instruments … just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9 in the Code could well have an impact on Local Authority budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Classification changes

Currently, many authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category which is causing authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and authorities will have to keep a very close eye on the budgetary.

CIPFA/LASAAC consultation on IFRS 16 Leases

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance with IAS 16. (In certain circumstances, alternative subsequent measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclosure any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

Audit Committee Effectiveness Toolkit

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.

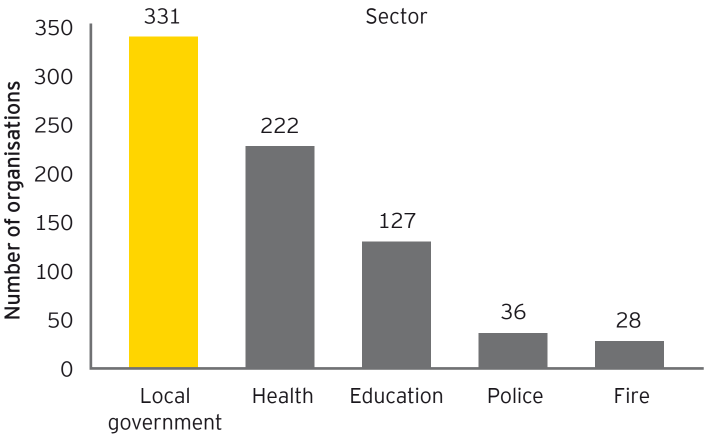
Regulation news

Gender pay gap reporting

On 4 April 2018, employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 331 local authorities (see Figure 1 below).

Figure 1: Government and Public sector bodies reported on gender pay gap

Who reported



The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%), whilst Local Government reported the lowest average median pay gap (5.8%), see Figure 2 below.

Figure 2: Average median pay gap

Average pay gap

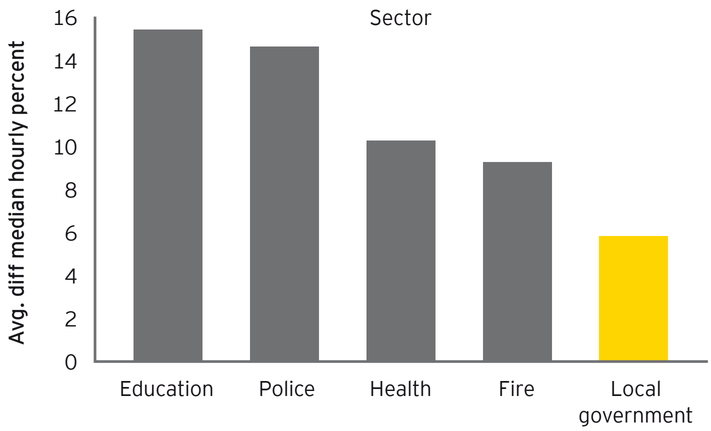
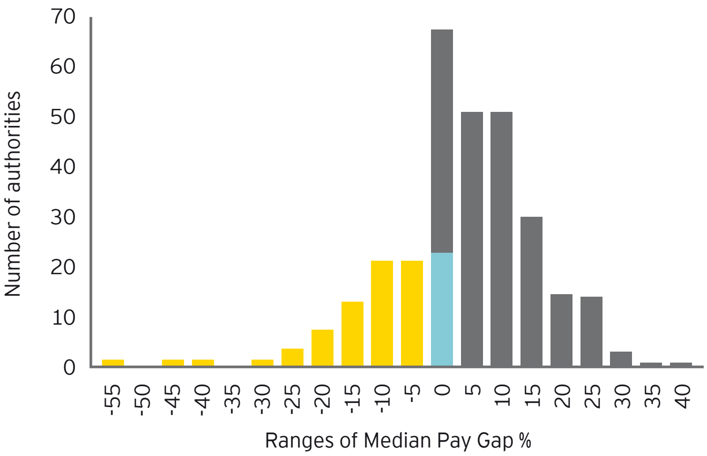


Figure 3 below sets out the % gap in median hourly pay between men and women reported by local authorities. This shows that 25 authorities reported a zero pay gap, 77 authorities reported a higher median pay for women than men, and the remaining 227 authorities reported men receiving a higher median pay for men than women.

Figure 3: Difference in median hourly pay in LG

Difference in median hourly pay in fire sector, %

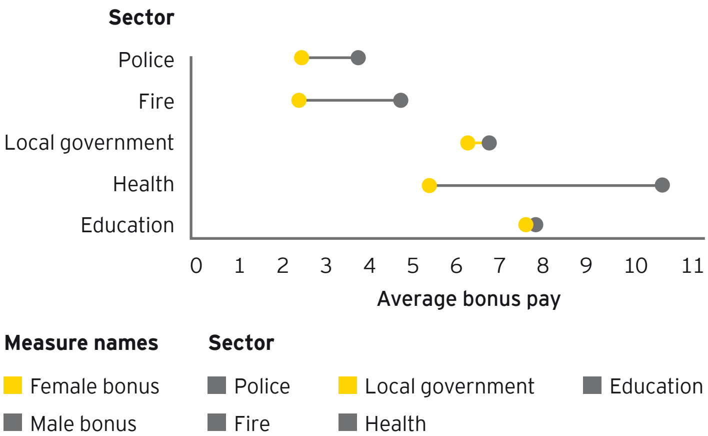


Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances were there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that local authorities have the second lowest bonus pay gap.

Figure 4: Bonus pay gap in the public sector

Bonus pay gap



Making Tax Digital (MTD) for VAT: changes from April 2019

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- Keep and preserve digital tax records
- File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by local authority employees it is important to review contracts and working practices across the different activities undertaken. One notable example of HMRC focus has been the payments to care workers for sleeping time. This has resulted in an increase in enforcement activity in this sector. Other significant areas of focus include:

- Salaried workers whose hours are not actively monitored
- Defined dress code policies which may reduce the NMW/NLW pay
- Deductions, such car parking charges paid by employees on facilities owned by the local authority
- Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority, it is prohibited from providing tax advice.

Find out more

EY Item Club forecast

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1

Financial Sustainability: NAO Report

https://www.nao.org.uk/press-release/financial-sustainability-of-local-authorities-2018/

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/

Code of Practice Improvements

http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances

http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c-,-consultation-on-ifrs-16-leases

http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings

https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801

Audit Committee Effectiveness Toolkit

Please contact your local audit team

Making Tax Digital (MTD) for VAT: changes from April 2019

https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax

https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

https://www.icaew.com/en/technical/tax/making-tax-digital

National Minimum/Living Wage legislation Compliance

https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law

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Part I – Release to Press

STEVENAGE BOROUGH COUNCIL

Agenda item:

Meeting Audit Committee

Portfolio Area Resources

Date 12 September 2018

ANNUAL AUDIT LETTER

The Ernst & Young Annual Audit Letter is attached.

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Stevenage Borough Council

Annual Audit Letter for the year ended 31 March 2018

August 2018

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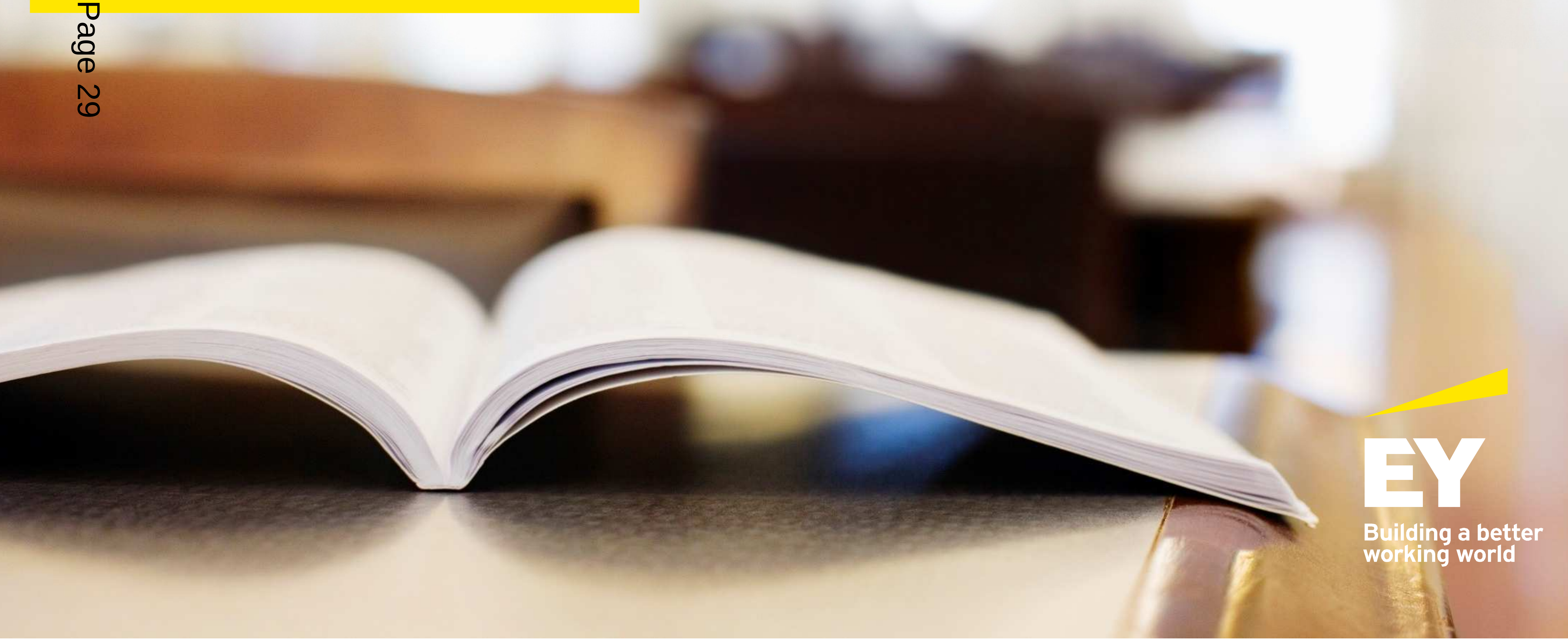

Contents

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

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

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Stevenage Borough Council following completion of our audit procedures for the year ended 31 March 2018.
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 2018 and of its then ended
► Consistency of other information published with the financial	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, 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 State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council findings resulting from our audit.	Our Audit Results Report was issued on 13 July 2018
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.	We issued our certificate on 27th July 2018.

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

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

Neil Harris

Executive Director

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Audit Committee representing those charged with governance. This was presented at the meeting held on 26th July 2018. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 March 2018 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 2017/18 financial statements and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts 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.

03 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 27th July 2018.

Our detailed findings were reported to the Audit Committee.
The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Risk of Management Override This is the risk that the financial statements as a whole are not free of material misstatements As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud manipulate accounting records directly or indirectly and prepare fraudulent financial statements otherwise appear to be operating effectively. We identify and respond to this fraud risk on every In response to the risk, we: • Enquired of management about risks of fraud and the controls in place to address those risks; • Considered the oversight given by those charged with governance of management's processes • Considered the effectiveness of management's controls designed to address the risk of fraud; • Tested the appropriateness of journal entries recorded in the general ledger and other financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; • Reviewed and tested revenue and expenditure cut-off at the period end date; • Tested a sample of capital expenditure to verify that revenue costs have not been • Tested a sample of revenue expenditure funded from capital under statute to ensure only used • Verified that adjustments between the accounting basis and funding basis in the movement in made in accordance with the Code.	We obtained the responses we requested from management and those charged enquiries and used these to inform our understanding of fraud risks. We noted that entity level control framework that we would expect to see, especially arrangements risk management, were in place. Our walkthrough testing included considering what controls are in place to address concluded that these are in large part year end processes including management financial statements. We confirmed that these controls were in place, although our on controls. We did not identify inappropriate use of journal entries. Our work on the testing of accounting estimates has been completed, and we our work on these estimates in detail for PPE and pensions. There is a difference of Council's valuer and our own specialist on the value of the swimming pool in indications of management override as such. Our work on the business rates that this was appropriately supported. We did not identify any other transactions during our audit which appeared Authority's normal course of business. We did not identify any material cut-off issues at the period end date. Our testing of capital and revenue expenditure funded from capital under statute appropriately treated. The adjustments between the accounting basis and funding basis in the movement correctly made in accordance with the Code. Overall, our audit work has not identified any material issues, inappropriate transactions which indicate that there has been any misreporting of the Authority's that management has overridden control.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Property, Plant and Equipment and Investment Property Valuations Property, Plant and Equipment represent a material balance in the Council's accounts. Valuation changes, the impact of impairment reviews and depreciation charges can also be material values.	We found when checking the position for a sample of assets that they were either within the expected range for the estimate or were not materially outside of the range. There was one asset, the swimming pool in Stevenage town centre, where the value whilst having increased from £3.1mn at 31 March 2017 to £3.7mn at 31 March 2018 was still under the range that the EY specialist considered would be appropriate for this asset (£5.2mn to £6.2mn). The Council's valuer has reduced the valuation to reflect the fact that whilst the pool is the Council's asset it is managed by a third party until 2023 which means that the Council does not directly receive income from the asset. The EY specialist considers that given the asset is not held as an investment property but rather for operational/utility purposes that this consideration is not relevant. Members and officers were of the view that the accounts should not be amended in respect of this asset.
Pension Liability Valuation The Local Authority Accounting Code of Practice (the Code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Council's pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £50.05mn.	The Council amended the draft statement of accounts to reflect an up to date estimate from the actuary of the Council's share of the Hertfordshire Pension Fund assets as at 31st March 2018. The statement of accounts was prepared based on IAS19 data and assumptions taken as at December 2017, with a forecast of the 31 March 2018 position. The Hertfordshire Pension Fund accounts included an up to date estimate of the fund asset value as at 31st March 2018, and this was £67mn higher reflecting improvements in market conditions. The actuary for the fund re-ran the reports for the local authorities in the Fund and this showed a reduction in the liability for Stevenage Borough Council of £2.592mn. Although the change in estimate of the fair value of the fund was within a reasonable range, as this difference was above our audit materiality, the Council therefore agreed to adjust its financial statements and disclosures to reflect revised values supplied by the actuary which resulted in a reduction in the pension liability from £52.644mn to £50,052mn, a reduction of £2.592mn.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.135mn (2016/17: £2.104mn), which is 2% of gross expenditure reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee on 26th July 2018 that we would report to the Committee all audit differences in excess of £0.106m (2016/17:

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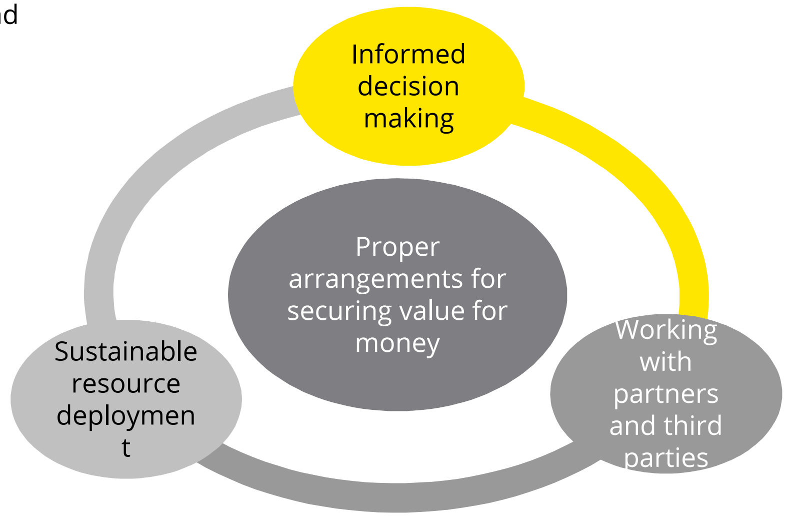
04 Value for Money

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

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

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



We identified one significant risk and two other risks around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion on 27th July 2018.

Value for Money (cont'd)

Significant Risk	Conclusion
Achievement of Savings Needed over the Medium Term The Council faces significant financial challenges over the next three to four three to four years, with a forecast savings of £2.5 mn required by 2021/22. In by 2021/22. In addition there are further savings required of approximately approximately £0.2 mn a year for the housing revenue account. account. Given the scale of the savings needed, there is a risk that saving plans to bridge saving plans to bridge this gap are not robust and/or achievable. This was achievable. This was identified as a significant risk at our 2016/17 audit. 2016/17 audit.	We concluded that arrangements are appropriate overall given: The Council's level of reserves at £5.5mn which is above the minimum level identified by the Chief Financial Officer of £2.5mn. £2.5mn. The identification of schemes to deliver the bulk of the savings required. Those for 2018/19 were well developed at the time of our review. time of our review. The track record of delivering against budget The assumptions used in the medium term financial plan are what we would expect There is however very little scenario planning/sensitivity reporting, other than the consideration of the impact of different council tax increases. The different council tax increases. The Council has had to scale back its increase in fees and charges for 2018/19. A similar scaling back, if required, for scaling back, if required, for later years of the strategy would still leave the Council with its minimum level of reserves however the Council may have to however the Council may have to reconsider its strategy in this area.

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Other matters to report

SG1

The Council has ambitious plans for the regeneration of the town centre. The first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We senior officer time are invested in the project. We needed to be assured that suitable arrangements had been put in place for the scheme.

The review suggests that the Council has followed proper processes to date although this is a long term project with major funding from third parties and one that we will need to continue to review as the governance arrangements continue to review as the governance arrangements emerge. Currently the capital programme recognises the projects that will be LEP funded but there are likely to be further projects linked to SG1 which SBC will wish to fund from its own linked to SG1 which SBC will wish to fund from its own resources. It has already done public realm works in the town centre ahead of SG1. The capital strategy that went to Members in February 2018 recognises that the Council will need February 2018 recognises that the Council will need to build up resources for works that will be linked to SG1.

Investment Property Strategy

The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 mn being invested in property, with this being funded from prudential borrowing. The objective is to obtain income of £0.2 mn a year to the general fund obtain income of £0.2 mn a year to the general fund (£0.1 mn in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we reviewed the reduce its budget gap and we reviewed the arrangements for the monitoring of the achievement of the strategy.

The strategy got off to a slow start in 2017/18 with the acquisition of one property (Essex House) which is due to deliver a net revenue stream of £44k per year. This meant the Council did not meet its target for this revenue stream in did not meet its target for this revenue stream in 2017/18 and the Chief Financial Officer has flagged the delivery of this saving option as a risk area on the risk register.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members 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 July 2018. 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 of regulatory and professional requirements.

Control Themes and Observations

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

06 Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below however we noted that the Council's assessment is that these are unlikely to have a material impact.

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Practice for Local Authorities has now been issued, providing guidance on 9. In advance of the Guidance Notes being issued, CIPFA have issued some information providing detail on the impact on local authority accounting of key outstanding issue is whether any accounting statutory overrides will be any impact.	Although the Code has now been issued, providing guidance on standard, along with other provisional information issued by to adopting IFRS 9, until the Guidance Notes are issued and any are confirmed there remains some uncertainty.
IFRS 15 Revenue Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This with accounting for all contracts with customers except: • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of customer contracts and the linking of income to the meeting of those Now that the 2018/19 Accounting Code of Practice for Local Authorities has becoming clear what the impact on local authority accounting will be. As the revenue streams of Local Authorities fall outside the scope of IFRS 15, the standard is likely to be limited.	It is our view, that IFRS 15 will not have a material impact on this entity financial statements. The vast majority of the Council's taxation or grant based.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

07 Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 13 July 2018 Annual Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	**TBC**	**64,004**	**64,004**	**73,513**
Total non-audit work - Grants	TBC	10,911	10,911	10,344

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We have undertaken additional work in relation to the Value for Money Conclusion significant risk. We are discussing with the Chief Financial Officer our final fee. Where we propose any variation, we will discuss this with the Audit Committee and it is also subject to PSAA approval.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

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SIAS

Shared Internal Audit Service
Hertfordshire in Partnership

Shared Internal Audit Service

Annual Report

2017/18

Annual Report Contents

Introduction and Highlights

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2017/18.

Since the Service was established in 2011, one of its key business delivery objectives has been to work in a manner that demonstrates a practical understanding of the pressures that its partners face. This is something that is even more important given the current financial climate.

To this end, in 2017/18 SIAS worked with partners to revise the Service's structure with a view to accommodating an agreed reduction in the level of audit work commissioned whilst still ensuring that the Service was able to provide appropriate levels of coverage to fulfil its statutory obligations.

As part of this process, SIAS sought to ensure that client audit plans were delivered with the optimum blend of internal and external resource; something that would not only satisfy its current client commitments in the most efficient and cost effective manner, but which would also future proof the Service in the medium to long term.

All of this has only been possible with the commitment and dedication of both, the in-house team and our external service provider, as well as the co-operation of our partners. When looking to the future, the Service will continue to combine its understanding of local government practices with a growing knowledge of the risks and controls associated with private sector business approaches; something that is needed to help partners as they evolve in that direction.

We are very proud of the work of the SIAS Team and are delighted to be able to share some of the highlights of our working year in this report.

Terry Barnett and Chris Wood

Head of Assurance for the Shared Internal Audit Service / SIAS Audit Manager

June 2018

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Levels of Delivery

Whilst the Service faced some challenges during the year arising from staff sickness absences and vacancies held over in lieu of the service restructure, it nonetheless very nearly achieved its overall target of delivering 95% of days commissioned by clients. In the final analysis, this was 94% and is a testament to the hard work and resilience of the SIAS Team.

Despite the challenges referred to above, the Service was also able to deliver 93% of its audit reviews to draft report stage by the close of the year and through the prioritisation of outstanding work in the final quarter ensured that this did not impact on the integrity of the assurance opinions given to clients.

Figure 1: Percentage of audits days delivered

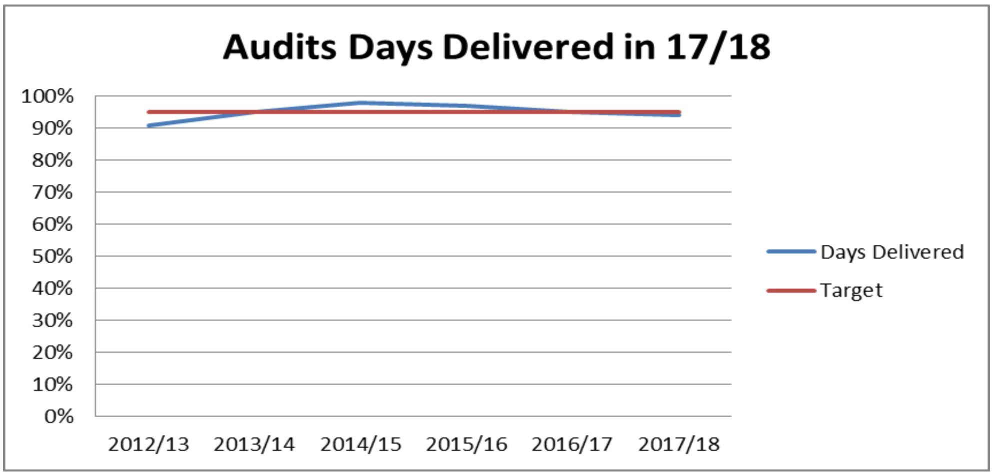
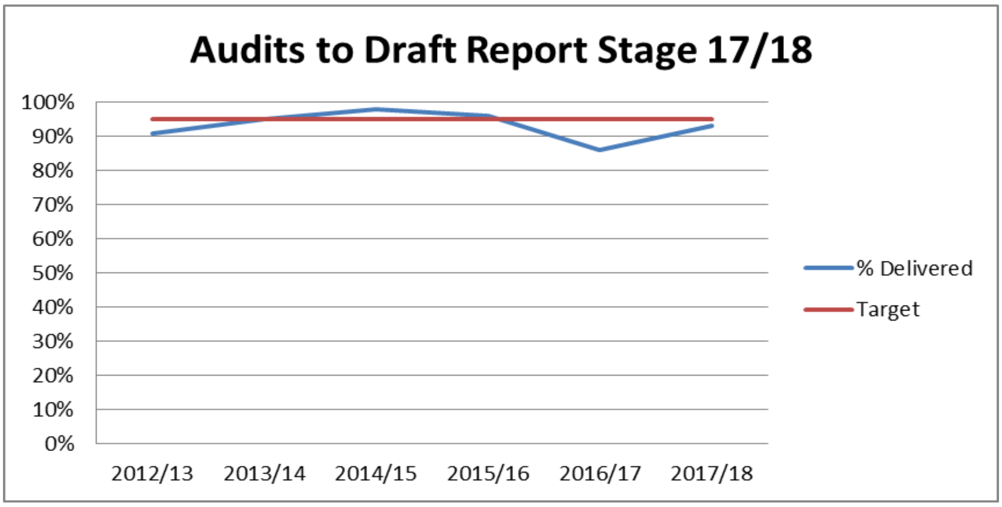


Figure 2: Percentage of audits to draft stage

Good performance despite resilience challenges…



Shared Learning - The Power of Partnership

Shared learning happens through the dialogue we have with others. It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is embedded through our team, our sister services within Assurance and across our partners and opportunities abound to publicise and promote issues big and small.

__Our quarterly shared learning papers are now a regular feature at management boards, governance groups and team meetings across our partners__

Over the course of 2017/18, our quarterly shared learning papers continued to be a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Service. The highlight of the last year was a special edition covering the topical issue of GDPR Preparedness. This dovetailed neatly with the rollout of GDPR audits across our partners. At the time of going to press on this Board report, planning had commenced on the next shared learning paper reviewing the high priority recommendations arising from our work across all partners.

In addition to our shared learning papers and newsletters, we hosted a very well received workshop for our partners and other stakeholders on Local Authority Trading and Commercial Governance, utilising the commercial expertise of our co-sourced audit delivery partners BDO.

During the course of the year, we facilitated a cross-partner process of self-assessment against the National Crime Agency’s Serious Organised Crime Checklist and will be sharing the key themes arising from that exercise so that our partners can learn from mutual good practice.

Our involvement with ‘Audit Together’, a strategic alliance of similar audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Home Counties Chief Internal Auditors Group have been invaluable in sharing experiences and ideas that help us to develop as a service in response to client need and the ever evolving field of internal audit. Our staff, partners and Audit Committee members continue to provide helpful challenge, which causes us to pause and think about matters big and small, whether about assurance levels, recommendation priorities, professional judgement and intellectual curiosity or about our skills, performance, systems and culture.

Developing Our Processes

Financial savings combined with greater resilience…

SIAS is committed to providing its services to clients in the most cost effective and resilient way possible. The development of its in-house time recording and audit plan management system is an excellent example of a service development that has delivered on both counts.

For SIAS, a time recording system is an integral part of its business processes, providing the performance data for the Management Team to oversee progress on audit plan delivery for individual clients or the whole service. Similarly, it is an important element of the performance management mechanisms for the staff within the Service.

Since its creation in 2011 SIAS, had been using a modified version of a proprietary Audit Management System product, incurring costs for both licensing and maintenance. As the Service developed, it became clear that this solution was not able to provide the level of detailed management information that the Management Team required for effective performance management at a variety of levels. Further, the approach of using an external supplier always carried a risk associated with continuity of service.

To address these issues, the SIAS Management Team commissioned the County Council's Improvement Team to modify an existing time recording system that it had developed for another County Council Service. This new solution has now been in operation within SIAS since May 2017 and is successfully meeting the needs of the Service whilst also providing opportunities for further service improvements.

The technology for the new system is based around established Microsoft products (Excel and Access) and the costs associated with system maintenance are absorbed within existing corporate overheads. This has allowed the Service to not only secure a financial saving of circa £3,000 per annum but, more importantly, to future proof its existing business processes.

First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2017/18 we have received 98% satisfactory or higher feedback rating from our customers; an improvement on the previous year.

Some of the comments that accompany the formal scoring document are shown below:

- *“An excellent professional service was provided and we were kept informed fully throughout the audit”*
- *“Clear understanding of process in place, transition being applied and recognition of best practice much appreciated. Extremely prompt delivery of Final Report”*
- *“Very helpful report, answering key questions senior management were requesting”*
- *“Just to say thanks for the time and effort put into this audit, the process has helped me as the Property manager to not only influence and direct staff to tighten up their processes and procedures which has in the past sometimes been difficult but also given some really good recommendations for us to action to improve the overall management of evidence. I now have the power of 'Internal Audit says' to back me! Thank you”*

“Very helpful report, answering key questions senior management were requesting”

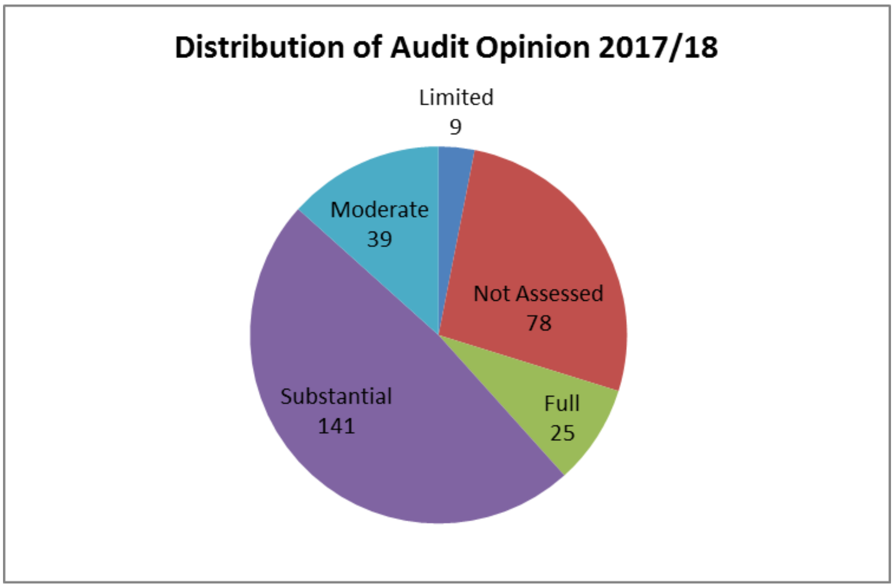
Performance - Outcomes

SIAS worked on 292 assurance and other projects during the year, giving the assurance opinions and recommendations detailed in the charts below.

292 assurance and other projects identifying 731 recommendations

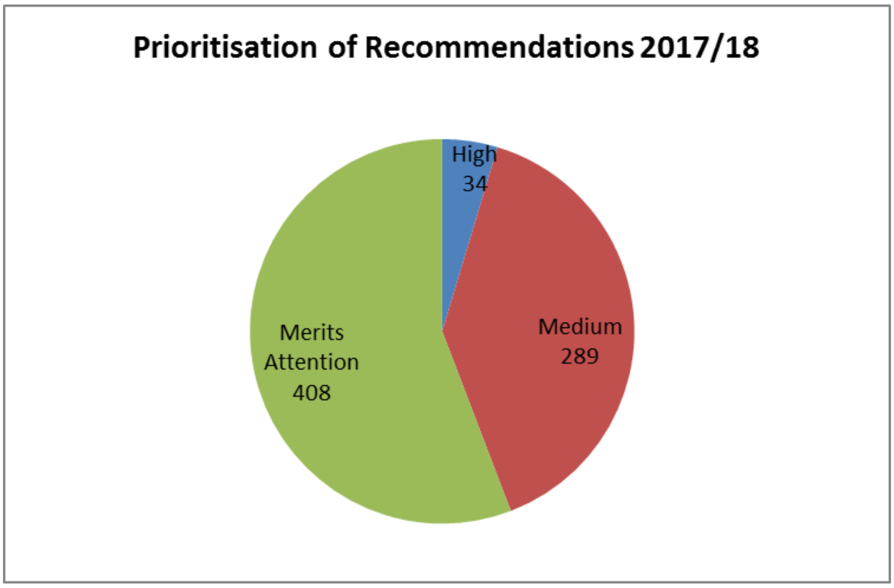
For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2017/18



For those audits where recommendations were required, the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2017/18



Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below.

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2017	Actual as at 31 March 2018	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	95%	94%	Despite resilience challenges in year, the service nonetheless came very close to achieving both of its targets.
Progress against plan: audits issued in draft by 31 March	95%	86%	93%	
Client satisfaction	Satisfactory and above	95%	95%	Continued good performance in this area

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2018. The partners determined that the service should aim to build a small surplus and to consider the financial position of the service on a three year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

Future Developments

Following the completion of the SIAS restructure in 2017/18, the coming year has a strong focus on consolidation, stability and revisiting the ‘nuts and bolts’ of the service to ensure that we have sound foundations for the future.

Our focus will be on:

- Developing and enhancing the role of our Client Audit Managers,
- Reviewing and refining our shared learning offering,
- Updating our SIAS guidance, templates, processes and procedures,
- Further integrating and simplifying of our performance, work allocation and information systems,
- Revisiting training and skills needs, as well as technical updates,
- Retendering for our co-sourced audit delivery partners, and
- Completing recruitment to our new Trainee Auditor posts.

The changing face of service delivery within Local Government also presents the Service with new challenges and a need to provide higher levels of consultancy advice on the control aspect of the commercial ventures that clients are engaging in.

The increased use of, or access to, data analytics tools is likely to become a key feature in the work of the Service going forward. The use of these tools will allow the Service to facilitate delivery of the widest coverage of process driven areas.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

In 2017/18, our Board members were as follows:

Clare Fletcher	**Assistant Director (Finance and Estates)**	**Stevenage Borough Council**
Sajida Bijle	**Corporate Director**	**Hertsmere Borough Council**
Steven Pilsworth	**Assistant Director Finance, Resources & Performance**	**Hertfordshire County Council**
Ian Couper	**Service Director (Resources)**	**North Hertfordshire District Council**
Ka Ng	**Executive Director – Resources, Environment and Cultural Services**	**Welwyn Hatfield Borough Council**
Isabel Brittain	**Head of Strategic Finance & Property**	**East Herts Council**
Jo Wagstaffe	**Shared Director of Finance**	**Watford Borough Council and Three Rivers District Council**
Terry Barnett	**Head of Assurance**	**SIAS**

SIAS cost centre: revised budget against outturn 2017/18

	Budget £	Outturn £
Salaries & Salary Related	1,145,981	1,061,892
Partner / Consultancy Costs	73,125	213,038
Transport	8,500	5,904
Supplies	18,483	9,048
Office Accommodation Cost	17,005	17,005
Total expenditure	1,263,094	1,306,887
Income	1,279,034	1,313,530
Net (surplus) / deficit	**(15,940)**	**(6,643)**

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

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Stevenage Borough Council
Audit Committee

12 September 2018

Shared Internal Audit Service – Progress Report

Recommendation

Members are recommended to:
a) Note the Internal Audit Progress Report
b) Note the Status of Critical and High Priority Recommendations

Contents

1 Introduction and Background

Purpose of Report

1.1 To provide Members with:

a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2018/19 Internal Audit Plan as at 24 August 2018.
b) The findings for the period 1 April 2018 to 24 August 2018.
c) The proposed amendments required to the approved Internal Audit Plan.
d) The implementation status of previously agreed audit recommendations.
e) An update on performance management information as at 24 August 2018.

Background

1.2 Internal Audit's Annual Plan for 2018/19 was approved by the Audit Committee at its meeting on 26 March 2018. The Audit Committee receive periodic updates against the Annual Internal Audit Plan.

1.3 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 function is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 As at 24 August 2018, 34% of the 2018/19 Audit Plan days had been delivered (calculation excludes contingency days that have not yet been allocated).

2.2 As at 24 August 2018 the following 2018/19 projects have been finalised:

Audit Title	**Date of Issue**	**Assurance Level**	**Number of Recommendations**
CSC Complaints Handling	August 2018	Substantial	One Medium, One Merits Attention
CCTV (joint internal audit)	August 2018	Limited	Nine High
Emergency Planning	August 2018	Good	None

2.3 The table below also summarises the position with regard to 2018/19 projects as at 24 August 2018. Appendix A provides a status update on each individual project within the 2018/19 Internal Audit Plan. Details of agreed start dates for the individual projects are also shown in Appendix C.

Status	No of Audits at this Stage	% of Total Audits
Final Report	3	9%
Draft Report	2	6%
In Fieldwork/Quality Review	4	12%
In Planning/Terms of Reference Issued	4	12%
Allocated	18	52%
Deferred/Cancelled	3	9%
Total	34	100%

2.4 The following 2017/18 draft reports have also been issued and await a management response:

Audit Title	Date of Issue	Assurance Level *	Number of Recommendations *
Shared Legal Service	March 2018	Moderate	Three Medium, One Merits Attention
Cyber Security	March 2018	Limited	Three High, Two Medium, Three Merits Attention

* 2017/18 Assurance Levels and Priority Ratings

<u>Proposed Audit Plan Amendments</u>

2.5 There has been no change to the Audit Plan since it was approved on 26 March 2018.

<u>Critical and High Priority Recommendations</u>

2.6 Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.

2.7 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations. The Appendix does not yet include the recommendations arising from the CCTV (joint internal audit) shown in 2.2 above, as the audit report is being submitted to a joint CCTV committee early next month.

Performance Management

2.8 The 2018/19 annual performance indicators were approved at the SIAS Board meeting in March 2018. Targets were also agreed by the SIAS Board for the majority of the performance indicators.

2.9 The actual performance for Stevenage Borough Council against the targets that can be monitored in year is set out in the table below.

Performance Indicator	**Annual Target**	**Profiled Target**	**Actual to 24 Aug 2018**
1. Planned Days – percentage of actual billable days against planned chargeable days completed	95%	31% (106 / 345 days)	34% (117.5 / 345 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	18% (6 / 34 projects)	15% (5 / 34 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level	100%	100%	100% (3 received) Note (1)
4. Number of Critical and High Priority Audit Recommendations agreed	95%	N/A	100% (9 High agreed) (Note (2)

Note (1) the 3 received so far in 2018/19 relate to 2017/18 projects

Note (2) these recommendations are not yet included in Appendix B – see paragraph 2.7 above

2018/19 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	LA				
Key Financial Systems – 75 days								
Main Accounting System (General Ledger)					6	Yes	0	Allocated
Debtors					10	Yes	0	Allocated
Creditors					12	Yes	0	Allocated
Treasury Management					6	Yes	0	Allocated
Payroll					12	Yes	0	Allocated
Council Tax					6	Yes	0	Allocated
NDR					6	Yes	0	Allocated
Housing Benefits					6	Yes	0	Allocated
Cash and Banking					5	Yes	0	Allocated
Housing Rents					6	Yes	0	Allocated
Operational Audits – 122 days								
Data Quality					15	Yes	13.5	Draft Report Issued
GDPR – Post Implementation Review					10	Yes	2.5	In Planning
Land Charges					7	Yes	2.5	Deferred
Emergency Planning	Good	0	0	0	10	Yes	10	Final Report Issued
Street Cleansing					15	Yes	5	In Fieldwork
CCTV – joint review	Limited	9	0	0	10	Yes	10	Final Report Issued
Development Management					10	Yes	0	Allocated
Homelessness Reduction Act					10	Yes	0	Allocated
Debt Recovery					12	Yes	2.5	In Fieldwork
Anti-Social Behaviour					10	Yes	1.5	Deferred
Herts Home Improvement Agency					2	Yes	0	In Planning
DFG Capital Grant Certification					1	Yes	0	Allocated

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	LA				
Digital – Connected to our Customers					10	Yes	3.5	Deferred
Procurement, Contract Management and Project Management – 24 days								
Refurbishment Contract					12	Yes	0.5	In Planning
Housing Development Schemes					12	Yes	1	In Planning
Risk Management and Governance – 10 days								
Risk Management					5	Yes	0	Allocated
Corporate Governance					5	Yes	0	Allocated
IT Audits – 30 days								
Cyber Security – (TSS Improvement Plan – Security)					6	Yes	0	Allocated
Incident Management / Major Incident Review Follow-up (TSS Improvement Plan – Resilience)					6	Yes	0	Allocated
Mobile Device Management and BYOD					6	Yes	6	Draft Report Issued
TSS Improvement Plan - Governance					12	Yes	10	In Quality Review
Shared Learning and Joint Reviews – 6 days								
Shared Learning					2	Yes	2	In Progress
Joint Reviews - tbd					4	No	0	Not yet allocated
Ad Hoc Advice – 5 days								
Ad Hoc Advice					5	No	2	Through Year
Follow-up Audits – 10 days								
Repairs and Voids Service					10	Yes	2.5	In Fieldwork
Completion of 17/18 Projects – 20 days								
CSC Complaints Handling	Substantial	0	1	1	10	Yes	10	Final Report Issued
Other					10	Yes	10	Final Reports Issued
Contingency – 5 days								

APPENDIX A - PROGRESS AGAINST THE 2018/19 AUDIT PLAN AT 24 AUGUST 2018

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	LA				
Contingency					5	No	0	Not yet allocated
Strategic Support – 43 days								
Annual Report and Head of Internal Audit Opinion 2017/18					3		3	Complete
Audit Committee					10		7	Through Year
Client Liaison					8		3.5	Through Year
Liaison with External Audit					2		0.5	Through Year
Monitoring					10		3.5	Through Year
SIAS Development					5		5	Through Year
2019/20 Audit Planning					5		0	Through Year
SBC TOTAL					**350**		**117.5**	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
1.	GDPR Preparedness	**Shared Services** Working with East Herts Council, the Council should define the responsibilities of both parties as both Data Controllers and Data Processors with regards to the shared services that exist. The Council's data protection procedures should be updated so that: The subject access procedure includes the actions to be taken when the request involves personal identifiable information owned by East Herts Council The data breach procedures include the actions for informing officers at East Herts Council. The responsibilities of the Council's Data Protection Officer should be defined in accordance with the agreements between the two Councils.	The Council acknowledges the findings and recommendations with regards to the Council's shared services with East Herts. As part of the Council's existing review of its shared services with other partner Councils under its existing GDPR compliance action plan, it will ensure relevant action is taken defining the responsibilities of both parties, and the required processes regarding responding to data subject requests and data breach procedures.	Information Officer	30 April 2018	May 2018 - In respect of data protection responsibilities for both parties as Data Controllers and Processors, proposed plans have been discussed for respective parties' data protection obligations to be defined in an Appendix to the current Partnership Agreements in place between the two Councils. August 2018 - A draft Appendix to the current Partnership Agreement defining respective parties' data protection obligations for both Councils has been completed.	Implemented.

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
2.	Repairs and Voids Service	**Post Project Closure Reports and Follow Up Actions**					Implemented.
		a) Management of the implementation of these actions should be included in the job objectives for the incoming Information Manager.	Agreed. Project Leads and the Information Analyst are to meet with all relevant parties on a monthly basis to review the actions and collate all relevant information and reports. This will then be reviewed and signed off by the Service Delivery Manager.	Service Delivery Manager	On appointment	January 2018 - No new management updates as report issued in January 2018. March 2018 - An update will be provided by representatives of Repairs and Voids service at the Audit Committee meeting. May 2018 – This work has been commenced and a phase two action plan has been developed and is monitored by the Service Delivery Manager with monthly reports provided to the Assistant Director, Strategic Director and Portfolio Holder. Performance generally is monitored on a weekly basis and cross service voids meetings are held to ensure timely turnaround or property repairs and works. An update will be provided by representatives of Repairs and Voids service at the Audit	
		b) Implementation of post project actions should be monitored by the ECHFL Board. For context – Finding included as background From the five projects selected, a post project closure report has been completed for four of these. The remaining one is due for completion following the final staff away day, September 2017. Whilst these projects are reported as completed, the	Agreed. Monthly reviews of this document will take place with the Service Delivery Manager and all updates will be logged and monitored. This can then be reviewed by ECHFL. Please also refer to the attached Post Programme Actions spreadsheet.	Service Delivery Manager and ECHFL Board	To be commenced October 2017		

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
		closing reports for each project identify future actions and post project actions. The project team leaders are mostly in charge of the future actions. Some of the actions such as those for the Repairs Diagnosis project have been ongoing since July 2016. During the course of the audit, a consolidated post project action tracker was being developed to allow the orderly demobilisation of the programme management team. There was no central monitoring of actions prior to the implementation of this tracker. It is essential that the incoming management team continue to monitor and implement these actions. The consolidated tracker has been developed to ensure that as the programme closes down and permanent managers recruited the actions are available. Prior to this, individual project managers tracked the progress of post project actions.				Committee meeting. August 2018 – Monthly reports run to track KPI's. As part of the Phase 2 improvement programme IT system upgrade will go live in September 2018, this will further improve efficiency and productivity.	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
		Several actions on the post programme tracker have been assigned to the 'Information Manager' post which has not yet been filled.					
3.	Digital Information Management	**Digital Record Retention** Senior Management should, in conjunction with the IT Service, identify an appropriate file management system(s) through which the Councils' record retention schedules can be enforced. The digital records, which include those that are stored within IT systems, should be reviewed on a routine basis and where there is not a demonstrable need for their retention they should be disposed of. The IT Service should maintain a record of the IT systems that do not conform to the Councils' requirements for digital record retention and appropriate compensating controls should be deployed.	SBC has recruited a new Information Officer who is delivering an action plan for the Council to comply with GDPR including focus on personal data. This post currently reports to the Head of Legal Services but will transfer to AD of Corporate Projects, Customer Services and Technology in July 2017. • Action plan delivery, • GDPR Compliance at SBC, • Proposing formation of a sub group of the Corporate Governance Group to be created to focus on good	Assistant Director (Corporate Projects, ICT and Customer Services) (Stevenage Borough Council) / Borough Solicitor	31 July 2017 31 May 2018 30 September 2017	August 2017 - This is a new addition and the management response opposite is the latest comment. The AD Corporate Projects, ICT and Customer Services and Senior IT Manager will be in attendance at the Audit Committee to take any questions. October 2017 – An update will be provided by representatives of IT Services at the Audit Committee meeting. January 2018 - An update will be provided by representatives of IT Services at the Audit Committee meeting. March 2018 - Action plan in place and being delivered / under review to achieve GDPR	Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
			information governance for SBC, • EH have a new Policy Officer leading on GDPR compliance and staff training.		31 May 2018	compliance at SBC – regular updates to SLT • Corporate Information Governance Group (CIGG) in place and meeting and IAO's identified and active • An Information and Records Governance Manager role has now been recruited / and will be confirmed • SIAS Audit – GDPR preparedness completed and draft report issued – moderate assurance. May 2018 - SBC has recruited a new Information and Records Governance Manager (and registered DPO with the ICO) whose priority initially is overseeing and driving the delivery of a cross council action plan to comply with GDPR. This post reports to the AD of Corporate Projects, Customer Services and Technology. Key outputs currently include - Drive and deliver the GDPR Compliance Action plan programme – including mandatory training for all Council	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						staff on GDPR. - Deliver SBC's core database - Records of Processing Activities (ROPA) - Establish of a Corporate Information Governance Group – CIGG. GDPR is setting the pace for improvements at this time – later this year we will be moving to a wider information and records governance agenda – looking at document and record management strategies, etc. August 2018 – Information and Records Governance Manager is currently supporting the completion of a number of GDPR compliance tasks in delivering the Council's GDPR Compliance Action plan programme and is working with Council service units to complete required tasks. A wider information and records governance agenda is being explored by the Information and Records Governance Manager in liaison with the IT Service and other	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						Council service units, with investigation of appropriate document and record management strategies for digital records stored within the IT systems.	
4.	Digital Information Management	**Security Standards for IT Systems** Management should establish a standard for securing the IT systems that are used to collect, process and store digital records. This should include, but not be limited to: - Password standards, which should be aligned to or exceed the requirement for active directory accounts. - All users should be uniquely identified and generic accounts should be locked unless there is a business requirement for their use - A full audit trail should be enabled to trace user activity. Management should	ICT Policy Frameworks to be strengthened – deliver actions within the Improvement Plan from the ICT Review (already procurement of a policy framework is being investigated) Cybersecurity Action Plan in place and being delivered.	Assistant Director (Corporate Projects, ICT and Customer Services) (Stevenage Borough Council)	30 September 2017	August 2017 - This is a new addition and the management response opposite is the latest comment. The AD Corporate Projects, ICT and Customer Services and Senior IT Manager will be in attendance at the Audit Committee to take any questions. October 2017 – An update will be provided by representatives of IT Services at the Audit Committee meeting. January 2018 - An update will be provided by representatives of IT Services at the Audit Committee meeting. March 2018 – New Access Control guidelines for IT Systems have been adopted and the shared	Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
		maintain a record of the IT systems that do not comply with the standard and take appropriate action to mitigate the risk of a security breach.				IT Service is working with key stakeholders to implement these guidelines for all IT systems used by both Councils. May 2018 - The Council, with its Shared Technology Services partner East Herts approved an ICT Improvement Plan in November / December 2017 (replacing the Cybersecurity Plan) , which prioritised the strengthening of IT system security across the Shared Service – in revenue terms £250k ADDITIONAL investment agreed for delivery: - New policy suite in delivery - Dual factor authentication planned - ITIL training and service management framework under review – applications register etc. - Strategic Leadership receive update reports on security status –and Improvement Plan progress monitored at Strategic Director level - last SLT report 22/5/2018.	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						August 2018 – The IT improvement plan has a number of strands that are in the early planning stages. 1. Implement an integrated Security Information and Event Management (SIEM) Platform (not started) 2. Improve Identity and Access Management (under way) 3. Endpoint Protection Modernisation and Standardisation (under way) 4. Modernise Border Gateway (Web, Email, DLP, Mobile Clients) (under way) 5. Consider the Introduction of a Application Delivery Controller / Next Generation Firewall at the perimeter (not started) 6. GDPR / Sensitive Data Information Mapping and ROT Data Removal (under way) The IT improvement plan	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						covers the period 2018 – 2019.	
5.	IT Disaster Recovery (Post-Incident)	**Network resilience** Management should put in place a defined procedure for establishing a single data centre in the event of a loss of synchronisation between the two data centres. These procedures should be incorporated within the IT disaster recovery planning (see Finding 2). Furthermore, additional connectivity should be added to the IT network so that the single point of failure for Stevenage Borough Council is addressed.	Agreed. A technical procedure for establishing all IT services at a single data centre has been drafted. This will be further refined following testing and use. Additional connectivity options are being considered and will be implemented as part of the outcomes from the IT Disaster Recovery review in January 2018.	Interim Senior IT Manager	Complete 31 August 2018	January 2018 - No new management updates as report issued in January 2018. March 2018 - The technical procedure is in place and we continue to work towards establishing a single data centre and this is part of the Disaster Recovery Planning currently being undertaken. This will be developed following the establishment of the Disaster Recovery Plan. May 2018 – An appraisal of options to improve the resilience of out IT Services is underway with support from SOCITM. The recommendations are due to come forward in June 2018 and will include a timeline for implementation.	Implemented. Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						August 2018 - Disaster Recovery Review has been completed. A technical procedure for establishing all IT services at a single data centre has been drafted. This option is to be considered/evaluated alongside more cloud centric options. The Council is working with Microsoft to apply a Microsoft Navigator Model Approach to identify medium to long term sustainable solutions that could offer alternative solutions to remove the single point of failure. It is anticipated that a strategic roadmap and costed plan will be produced by December 2018. Short term data storage options are being appraised including cloud storage as a service. A proposal is to be considered by the IT Partnership Board in October 2018.	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
6.	IT Disaster Recovery (Post-Incident)	**Environmental controls** Appropriate environmental controls should be installed at both data centres so that they can continue to operate in the event of a disaster. This should include: • Appropriate UPS deployed at both data centres • Appropriate power sources to support the continued operation of air conditioning at the Daneshill site. Management should define the processing capacity threshold at which it is no longer possible for a data centre to operate as the single data centre. This should be monitored and, where exceeded, appropriate action should be taken.	Agreed. Increased power resilience will be implemented with larger capacity UPS deployed at both data centres, plus a generator will be installed to support the continued operation of the Daneshill data centre in the event of power disruption. Capacity requirements will be considered as part of identifying the technical solution within the planned review of IT Disaster Recovery Plans. More formal improved capacity management processes will be introduced as part of the IT Service's adoption of ITIL.	Interim Senior IT Manager	31 May 2018 31 March 2018 31 December 2018	January 2018 - No new management updates as report issued in January 2018. March 2018 - The first meeting with the supplier is due to take place in early March and installation is expected by the original target date. This will increase our ability to operate Business As Usual and enable more effective Disaster Recovery. Additional hardware is being purchased to enable greater capacity. This initial mitigation will be in place by April 2018. This will enable the re-provisioning of a greater number of remote desktops across both councils should a data centre be lost. IT staff have undergone initial ITIL training and the learning has started to be transferred to the workplace. Further training will continue on	Implemented. Implemented. Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						an on-going basis. May 2018 – Works to implement the additional power resilience at Daneshill House are scheduled to take place in June 2018. Capacity requirements are being defined as part of the options appraisal exercise mentioned above. Once requirements are clearly defined, thresholds will be set and an escalation protocol agreed. August 2018 - UPS installed and tested. Action completed. Installation of new power generator was completed in June 2018. Now being addressed as part of Microsoft Navigator Approach Project. ITIL policy and procedural review is underway.	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
7.	IT Disaster Recovery (Post-Incident)	**Disaster recovery planning** Working with stakeholders from both Councils, Senior Management must define the recovery time and point objectives for critical IT systems and determine the order by which they should be recovered by the Service. Where the Service is unable to achieve these objectives, the relevant IT system owner must identify alternative recovery solutions. The Service should put in place a defined IT disaster recovery plan, which is aligned to the Councils' continuity planning.	Agreed. A review of IT Disaster Recovery arrangements will be undertaken, which will re-establish the councils' business requirements and identify the technical solutions needed.	Interim Senior IT Manager	31 March 2018	January 2018 - No new management updates as report issued in January 2018. March 2018 - BDO have been commissioned to provide expertise and support to the review of Disaster Recovery Planning. This will be further supported by the expected team restructure once the new lead post has been recruited to. In the meantime, the IT team continue to progress this work, supported by experts from outside of the organisations. March 2018 – Recommendations from the BDO review are being addressed through the options appraisal mentioned above. It has been agreed that BDO will also review the outcome of the options appraisal to provide additional assurance that	Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
						the issues identified through this audit have been addressed. August 2018 - Business continuity service plans have been reviewed. SLAs are being developed that cover system recovery. Microsoft Navigator Approach to identify further options to deliver a more sustainable and resilience IT systems environment.	
8.	IT Disaster Recovery (Post-Incident)	**Risk assessment and tolerance** Management should assess the risk of the data centres becoming unavailable and, where necessary, revise the risk treatment plans. Senior management at both Councils, supported by the Service, should perform a business impact assessment with regards to the loss of IT and define their respective risk appetites so that appropriate actions are	Agreed. The risk appetites of the councils will be considered and addressed as part of the planned review of IT Disaster Recovery Plans.	Interim Senior IT Manager	31 March 2018	January 2018 - No new management updates as report issued in January 2018. March 2018 - See item above. This will be considered as part of the first phase of the review of Disaster Recovery Planning being supported by BDO. May 2018 – see item	Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (24 August 2018)
		taken by the Service.				above relating to appraisal of options. August 2018 - The risk appetites of the councils will be considered and addressed as part of the Microsoft Navigator Approach.	

Apr	May	Jun	July	Aug	Sept
2017/18 Audit – Other **(Final/Draft Reports Issued)**	Mobile Device Management and BYOD **(Draft Report Issued)**	Emergency Planning **(Final Report Issued)**	GDPR – Post Implementation Review **(In Planning)**	Debt Recovery **(In Fieldwork)**	DFG Capital Grant Certification **(Allocated)**
CSC Complaints Handling **(Final Report Issued)**	Data Quality **(Draft Report Issued)**	TSS Improvement Plan Governance **(b/f from Jan) (In Quality Review)**	Street Cleansing **(In Fieldwork)**	Housing Development Schemes **(In Planning)**	Development Mgmt. **(Allocated)**
CCTV – joint internal audit **(Final Report Issued)**			Repairs and Voids Service (Follow up) **(In Fieldwork)**	Refurbishment Contract (1) **(In Planning)**	Land Charges **(Deferred from June) (Allocated)**
					Herts Home Improvement Agency **(b/f from Feb) (In Planning)**

Oct	Nov	Dec	Jan	Feb	Mar
Main Accounting System (General Ledger) **(Allocated)**	NDR **(Allocated)**	Housing Rents **(Allocated)**	Debtors **(Allocated)**	Corporate Governance **(Allocated)**	Risk Management **(Allocated)**
Council Tax **(Allocated)**	Treasury Management **(Allocated)**	Payroll **(Allocated)**	Creditors **(Allocated)**	Cyber Security **(Allocated)**	
Housing Benefits **(Allocated)**	Cash and Banking **(Allocated)**	Digital - Connected to our Customers **(Deferred from June) (Allocated)**	Incident Management – Major Incident Review / IT Disaster Recovery Follow-up **(Allocated)**	Homelessness Reduction Act **(Allocated)**	
Refurbishment Contract (2) **(Allocated)**	Anti-Social Behaviour **(Deferred from May) (Allocated)**				

This is an indicative spread of audit start dates that may change as the financial year progresses.
All key financial systems audits have been brought forward to accommodate early closure and external audit requirements.

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

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Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

Part I
Release to Press

Stevenage BOROUGH COUNCIL

Meeting:	**EXECUTIVE / AUDIT COMMITTEE / COUNCIL**	**Agenda Item:**
Portfolio Area:	Resources	
Date:	**5 September / 12 September / 17 October**	

Financial security

ANNUAL TREASURY MANAGEMENT REVIEW OF 2017/18 INCLUDING PRUDENTIAL CODE

NON-KEY DECISION

Author – Yamini Krishnan Ext. 2752
Contributor – Lee Busby Ext. 2730
Lead Officer – Clare Fletcher Ext. 2933
Contact Officer – Clare Fletcher Ext. 2933

1 PURPOSE

1.1 To review the operation of the 2017/18 Treasury Management and Investment Strategy.

2 RECOMMENDATIONS

2.1 **Audit Committee & Executive**
That subject to any comments the 2017/18 Annual Treasury Management Review is recommended to Council for approval.

2.2 **Council**
That subject to any comments from the Audit Committee and the Executive, the 2017/18 Annual Treasury Management Review be approved.

3 BACKGROUND

3.1 Regulatory requirement

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.1.2 During 2017/18 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 28/02/2017)
- a mid-year treasury update report (Council 14/12/2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

3.1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee and the Executive before they were reported to the Council.

3.2 **The Economy and Interest rates in 2017/18**

3.2.1 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would rise. The UK economy showed growth in the second half of 2016 but growth in 2017 was weaker in the first half of the year, the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the service sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that MPC would be heading in the direction of a Bank Rate rise. At the 2 November MPC quarterly Inflation Report meeting Bank Rate was raised from 0.25% to 0.50%.
The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter. Subsequently bank rates have risen again to 0.75% on 2 August 2018.

3.2.2 **PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of the latest three increases was greater in shorter terms of around 5 years, rather than longer term yields.

The major UK landmark event of the year was the **general election** on 8 June. However, this had relatively little impact on financial markets.

4 OVERALL TREASURY POSITION AS AT 31 MARCH 2018

4.1 At the beginning and the end of 2017/18 the Council's treasury position was as follows:

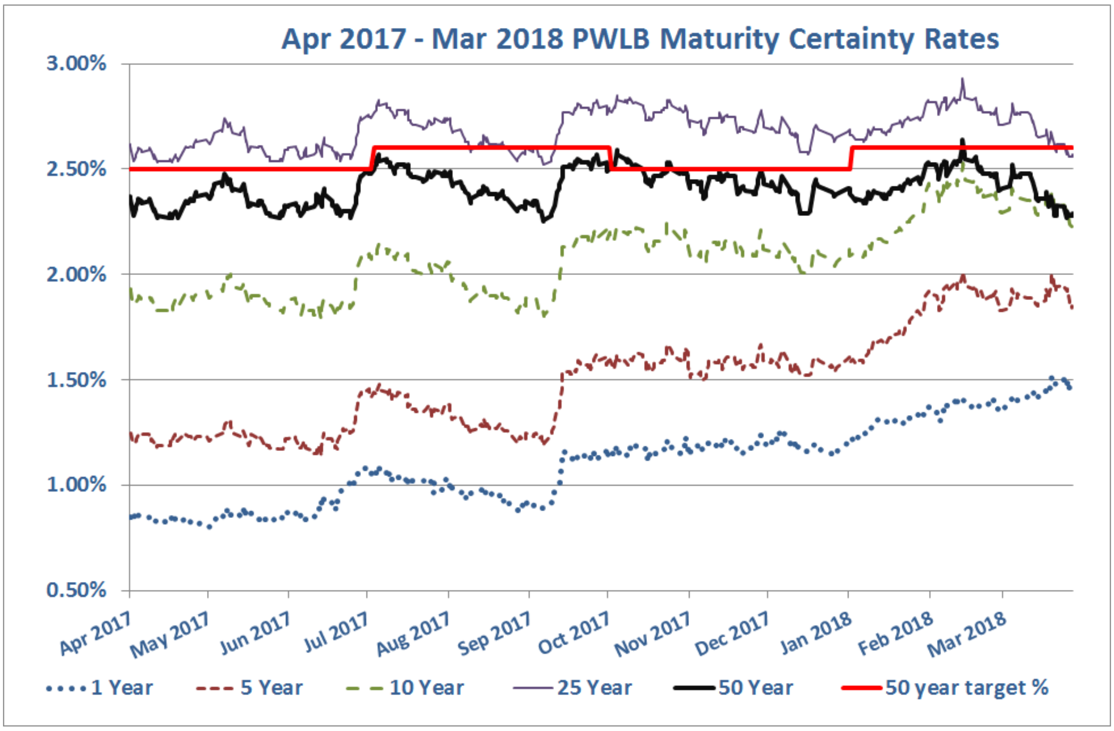
Table One: Treasury Position						
	2016/17			2017/18		
	31 March 2017 Principal £'000s	Rate / Return %	Average Life (Yrs)	31 March 2018 Principal £'000s	Rate / Return %	Average Life (Yrs)
Total Borrowing	**209,494**	**3.38**	**16.66**	**208,487**	**3.38**	**15.81**
Capital Financing Requirement	223,275			221,877		
Over/(under) borrowing	(13,781)			(13,390)		
Investments Portfolio	**57,595**	**0.57**		**62,380**	**0.58**	

5 TREASURY MANAGEMENT STRATEGY 2017/18

5.1 The original 2017/18 Treasury Management strategy had projected low but rising Bank Rate starting from 2nd quarter of 2019 and gradual rises in medium and longer term fixed borrowing rates during 2017/18.

5.2 During 2017/18 base rates remained low and consequently yields were low compounded by counterparty risk considerations. There continued to be a gap between investing (0.58%) and borrowing rates (2.9% - 25yr PWLB rate March 2018) which meant it was still prudent to maintain the treasury strategy of postponing external borrowing. This policy avoids the cost of holding higher levels of investments and reduces counterparty risk, by using internal borrowing while cash balances allow. (See also section 5.7).

5.3 During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year. The graph below shows how PWLB 25 and 50 year rates have been volatile during the year and shorter rates were on the rising trend during the second half of 2017/18 and reached peaks in February/March.



5.4 **The Council's Capital Expenditure and Financing 2017/18.**

5.4.1 In 2017/18 the Council spent £26,036,000 on capital projects (General Fund and Housing Revenue Account). The total capital programme was funded from existing capital resources and new prudential borrowing. The borrowing of £1,755,950 was taken for the acquisition of Commercial Property Portfolio as approved by the Council on 17 May 2017. No other external loans were taken out during 2017/18 to fund existing borrowing requirements from previous years. Table two details capital expenditure and financing used in 2017/18.

Table two : 2017/18 Capital Expenditure and Financing				
	2017/18 Original Estimate £'000	2017/18 Quarter 3 Revised Working Budget £'000	2017/18 Actual £'000	2017/18 Variance Actual to Quarter 3 Revised Working Budget £'000
Capital Expenditure:				
General Fund Capital Expenditure	7,799	20,663	9,013	(11,650)*
HRA Capital Expenditure	16,335	17,525	17,022	(503)
Total Capital Expenditure	**24,134**	**38,188**	**26,036**	**(12,153)**
Resources Available for Capital Expenditure:				
Capital Receipts	(8,111)	(14,951)	(14,797)	154
Capital Grants /Contributions	(375)	(3,416)	(738)	2,678
Capital Reserves	(1,981)	(2,695)	(1,716)	979
Revenue contributions	(114)	(114)	(89)	25
Major Repairs Reserve	(9,683)	(3,813)	(6,940)	(3,127)
Total Resources Available	**(20,263)**	**(24,988)**	**(24,280)**	**709**
Capital Expenditure Requiring Borrowing	**3,870**	**13,200**	**1,756**	**(11,444)**

* £11,650,000 relates to slippage of commercial property portfolio and site assembly as detailed in Q4 outturn report to Members on 11th July 2018.

5.4.2 The Treasury Management review of 2017/18 and Prudential Indicators have been updated to reflect changes to capital budgets which have been approved throughout the year. The actual capital expenditure for 2017/18 has already been reported to Executive on 11 July 2018.

5.5 **The Council's overall need to borrow and Capital Financing Requirement**

5.5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). It represents the amount of debt it needs to/has taken out to fund the programme (and includes both internal and external borrowing). The CFR is then reduced as debt repayments are made and Minimum Revenue Provisions (MRP – see also para 5.6) are made. A separate CFR is calculated for the General Fund and Housing Revenue Account and any transfers of assets (such as land or buildings) will impact on each fund's CFR. The CFR will go up on the fund "receiving" the assets and go down (by the same amount) on the fund "giving" the asset.

5.5.2 Cash balances (£62.38M as at 31 March 2018) enable the Council to use internal borrowing in line with its Capital Strategy and Treasury Management

Strategy. This position is kept under review taking into account future cash balances and forecast borrowing rates. Members should note that these cash balances relate in part to the restricted use right to buy “one for one” receipts (£10.1million) and provisions (£10.3million) for future liabilities (see also para 5.7.4).

5.5.3 As at the 31 March 2018 the Council had total external borrowing of £208,486,739. The debt repayment profile is shown in the following table:

Table Three Maturity of Debt Portfolio for 2016/17 and 2017/18		
Time to maturity	**31 March 2017 Actual £'000's**	**31 March 2018 Actual £'000's**
Maturing within one year	4,004	3,004
1 year or more and less than 2 years	1,763	263
2 years or more and less than 5 years	789	790
5 years or more and less than 10 years	8,763	18,956
10 years or more	194,175	185,474
Total	**209,494**	**208,487**

5.5.4 The General Fund had external borrowing of £4,571,739, of which £1,500,000 was with a local authority and the remainder with the Public Works Loan Board (PWLB). The HRA had external borrowing of £203,915,000 all held with the PWLB, of which £9,004,000 relates to pre 2012 decent homes programme and the remainder £194,911,000 to self- finance the payment made to central government in 2012.

5.5.5 The HRA borrowing is constrained by legislation and is capped at £217,685,000. As at the 31 March 2018 the head room available for new HRA borrowing was £11,431,577.

5.5.6 The Council’s CFR is one of the key prudential indicators and is shown in the following table.

Table Four : Capital Financing Requirement 2016/17 and 2017/18			
CFR Calculation	**31-Mar-17 (£'000)**	**31-Mar-18 (£'000)**	**Movement in Year (£'000)**
Opening Balance	**223,929**	**223,275**	
Closing Capital Financing Requirement (General Fund)	14,769	15,623	854
Closing Capital Financing Requirement (Housing Revenue Account)	208,506	206,253	(2,253)
Closing Balance	**223,275**	**221,877**	
Increase/ (Decrease)	**(654)**	**(1,399)**	**(1,399)**

5.5.7 The CFR for the HRA is reduced by £2,252,500 as a repayment of £2,500,000 was made in year and 29 Shephall Way was transferred between the General Fund and HRA for £247,500.In 2018/19 there is a scheduled debt repayment of £1,241,000, further borrowing of £3,500,000 originally forecasted (approved as part of the updated HRA business plan) was not taken in 2017/18.

5.5.8 The General Fund's CFR has increased by £854,078 - due to;

- new borrowing taken for Commercial Property Portfolio of £1,755,950,
- the Minimum Revenue Provision (MRP) made in year of £654,372 and
- Shephall Way transferred between the General Fund and HRA

5.5.9 In 2018/19 there is a scheduled debt repayment of £1,500,000 borrowed from a local authority. Further borrowing of £13,244,000 (already approved by the Council) was not taken in 2017/18.

5.6 Minimum Revenue Provision (MRP)

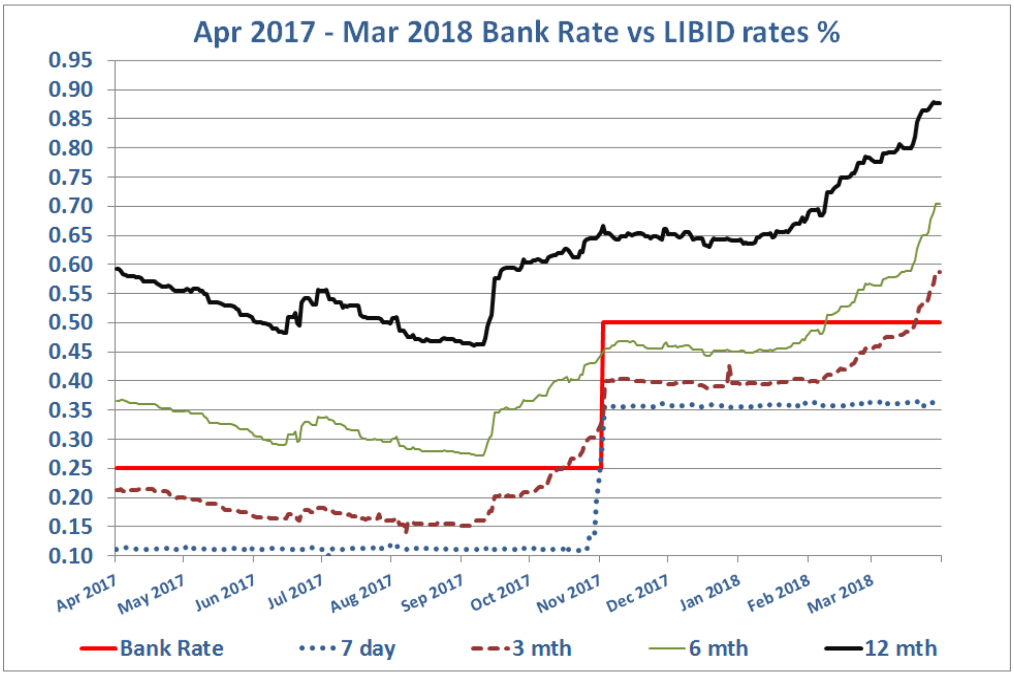
5.6.1 The Prudential Code, by which the Council has to make its borrowing decisions, requires the Council to demonstrate that borrowing is required and affordable. The MRP is a statutory requirement to ensure borrowing is affordable for the General Fund and does not apply to the HRA (the HRA affordability has been determined by central government in setting the HRA's debt cap (see also para 5.5.5)). The Council is required to make an annual MRP based on its policy approved by Council as part of the Treasury Management Strategy. The calculation of MRP is based upon prior years' borrowing requirement (regardless of whether that borrowing was internal or external) and the life of the asset for which the borrowing was required.

5.6.2 The MRP charged to the General Fund in 2017/18 was £654,371.

5.7 Cash Balances and Investment rates

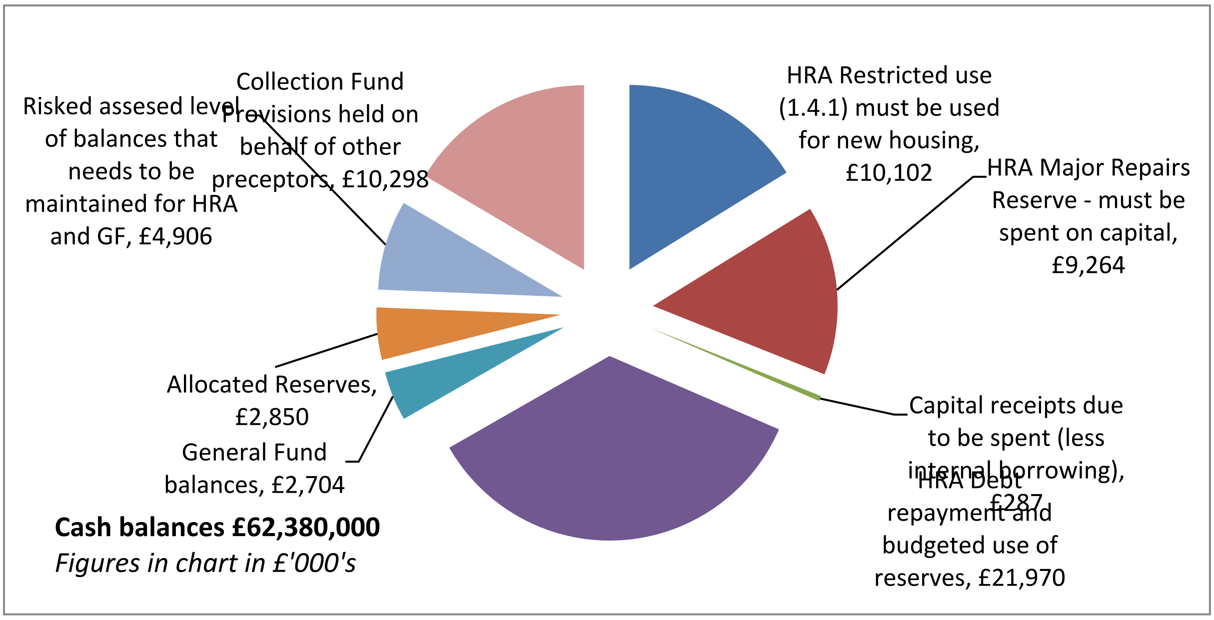
5.7.1 As at 31 March 2018 cash balances held by the Council were £62.380Million. During the year the average cash balance was £72Million, earning interest of £416,436 and achieving an average interest rate of 0.58%. The comparable rate was 0.21% (average 7-day LIBID rate). This compares with an original budget assumption of £207,810 based on average investment rate of 0.42% however higher cash balances and better than anticipated rates resulted in more investment interest. No funds were placed with the Debt Management Office (DMO) during 2017/18.

5.7.2 Investments rates for 3 months and longer had been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years (4th August 2018 was raised to 0.75%). Deposit rates continued into the start of 2017/18 at previous low levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018. The following chart shows Bank rate and LIBID rates in 2017/18.

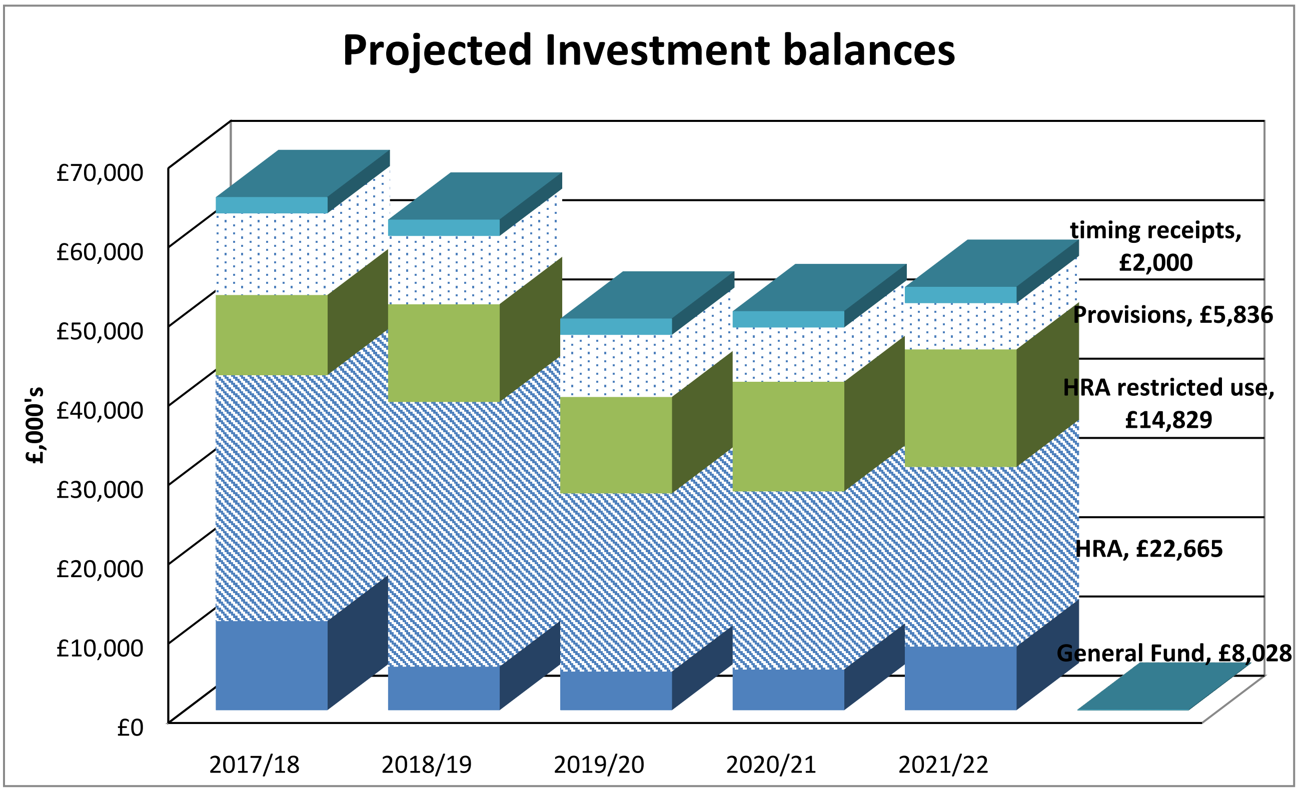


5.7.3 Cash balances were £62.38million at the end of the year partly due to retention of one for one right to buy receipts ring fenced for HRA new social housing schemes (£10.1Million), provisions and reserves held for specific purposes. The restrictive use of a proportion of these receipts plus the planned use of resources in line with the Council's capital and revenue strategies means that these resources are not available for new expenditure.

The following pie chart details the resources held in cash balances and type of expenditure they can be used for.



5.7.4 The following chart shows the historic level of cash balances and the current projections to 2020/21.



5.7.5 The Council invests it surplus cash balances in accordance with the Treasury Management Strategy approved by Council on 28 February 2017. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data and counterparty limits dependant on level of cash balances held.

5.7.6 There were no breaches to this policy in 2017/18 with the investment activity during the year conforming to the approved strategy and the Council had no liquidity difficulties.

5.8 Other Prudential Indicators

5.8.1 The treasury management indicators for 2018/19 onwards have been updated based on the updated Capital Strategy approved by Council in February 2018 and subsequently updated in the 3rd and 4th quarter capital updates reported to Executive and Council in March and July 2018.

5.8.2 The **net borrowing position** for the Council as at 31 March 2018 was **£146.107Million** (total borrowings/loans of £208.487Million less total investments held of £62.380Million).

5.8.3 The operational boundary and authorised limit refers to the borrowing limits within which the treasury team operate. A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. **There were no breaches of either limit in 2017/18.**

5.8.4 The **ratio of financing costs** to net revenue stream is equal to General Fund interest costs divided by the General Fund net revenue income from Council tax, Revenue Support Grant and retained business rates. The 2017/18 indicator is 6.91%.

5.8.5 The full list of treasury prudential indicators is shown in Appendix A and has been updated for the 2017/18 outturn position and the revised 2018/19 capital programme.

5.8.6 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. According to the changes to the Code, the following Prudential Indicators are no longer a requirement, therefore they have been removed from Appendix A (Prudential Indicators).

- Incremental impact of capital investment decisions
- Upper Limit for fixed interest rate exposure
- Upper Limit for variable interest rate exposure and
- Upper limit for total principal sums invested for over 364 days

6 OTHER ISSUES

6.1 Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. The revised code included a distinction between treasury and non-treasury (eg property investments) types of investment. Officer propose to meet the requirement of the new code by incorporating additional information into the Capital and Revenue budget setting reports (2019/20 onwards) to Executive and Council to enable Members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments.

6.2.1 Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. The Council fulfilled the requirements of professional status and subsequently the MiFID II has had little impact on the Council's Treasury Management activities.

6.2.2 Breach of overdraft Limit on 21 May 2018

On 21 May 2018, a request was made to return funds held by the Council from Amundi, a Money Market Fund (MMF). This fund is held in a Luxembourg bank. Council staff was unaware that it was a bank holiday on that day in Luxembourg, where Amundi's bank is based, which meant that the requested was not processed and funds weren't returned until the next working day. A short term overdraft facility was arranged to ensure Council's obligations were met, which resulted in an interest payment of £3,006.20. All Non-UK Bank holidays are now noted in the daily cash sheet, in addition to a pop up message on the portal that will alert staff in future.

7 IMPLICATIONS

7.1 Financial Implications

7.1.1 This report is of a financial nature and reviews the treasury management function for 2017/18. Any consequential financial impacts identified in the July Capital strategy and 4th quarter revenue budget monitoring report have been incorporated into this report.

7.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

7.2 Legal Implications

7.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

7.3 Equalities and Diversity Implications

7.3.1 The purpose of this report is to review the implementation of the Treasury management policy in 2017/18. Before investments are placed with counter parties the Council has the discretion not to invest with counter parties where there are concerns over sovereign nations' human rights issues.

7.3.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

7.4 Risk Implications

7.4.1 The current policy of not borrowing externally only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. Should these conditions change the Council may need to borrow at higher rates which would increase revenue costs.

7.5 Policy Implications

7.5.1 This report confirms treasury decisions have been made in accordance with the policy.

BACKGROUND PAPERS

- BD1 Mid year Treasury update (Council 14 December 2017)
- BD2 Treasury Management Strategy including Prudential Code Indicators 2017/18 (Council 28 February 2017)

APPENDICES

- Appendix A Prudential Indicators
- Appendix B Investment and Borrowing Portfolio.

Treasury Management Prudential Indicators

Appendix A

2017/18 Treasury Management Outturn

ok

Capital Expenditure (Based on Capital Strategy Feb 2018):

	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund	4,829	7,799	12,605	20,932	9,013	21,708	16,099	3,970
HRA	19,402	16,335	18,808	17,525	17,022	31,355	36,049	31,439
Total	**24,231**	**24,134**	**31,413**	**38,457**	**26,035**	**53,063**	**52,148**	**35,409**

Ratio of financing costs to net revenue stream:

	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	%	%	%	%	%	%	%	%
General Fund Capital Expenditure	8.53%	7.97%	7.13%	7.82%	6.91%	14.22%	16.08%	16.50%
HRA Capital Expenditure	15.12%	15.60%	15.60%	16.91%	15.61%	16.94%	16.72%	16.16%

General Fund: Net revenue stream is the RSG, NNDR grant and Council Tax raised for the year.

HRA: The net revenue stream is the total HRA income shown in the Council's accounts from received rents, service charges and other incomes. The ratio of financing costs to net revenue stream reflects the high level of debt as a result of self financing.

Authorised Limit for external debt

	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	15,580	15,296	15,580	33,971	33,971	40,666	42,251	43,103
Borrowing - HRA	212,506	212,265	212,506	217,655	217,655	217,655	217,655	217,655
Total	**228,086**	**227,561**	**228,086**	**251,625**	**251,625**	**258,321**	**259,906**	**260,758**

The authorised limit in that it is the level up to which the Council may borrow without getting further approval from Full Council. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The authorised limit allows for £9m headroom, which is in addition to our capital plans.

Operational Boundary for external debt

	2016/17	2017/18	2017/18	2017/18	2017/18	2018/19	2019/20	2020/21
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	10,580	10,296	10,296	31,471	31,471	38,166	39,751	40,603
Borrowing - HRA	212,506	208,265	208,265	211,209	211,209	211,209	211,209	211,209
Total	**223,086**	**218,561**	**218,561**	**242,680**	**242,680**	**249,376**	**250,961**	**251,812**

The operational boundary differs from the authorised limit in that it is the level up to which the Council expects to have to borrow. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The operational boundary allows for £1m headroom in addition to our capital plans.

Gross & Net Debt

	31/03/2017	31/03/2018	31/03/2018	31/03/2018	31/03/2018	31/03/2019	31/03/2020	31/03/2021
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Gross External Debt - General Fund	3,079	2,816	2,816	12,516	4,572	18,389	20,692	22,284
Gross External Debt - HRA	206,415	202,674	202,674	206,174	203,915	206,174	206,174	206,174
Gross External Debt	**209,494**	**205,490**	**205,490**	**218,690**	**208,487**	**224,563**	**226,866**	**228,458**
Less Investments	(57,595)	(45,131)	(45,131)	(62,434)	(62,380)	(45,563)	(37,038)	(31,479)
Net Borrowing	**151,899**	**160,359**	**160,359**	**156,256**	**146,107**	**179,000**	**189,828**	**196,979**

The Gross External Debt is the actual debt taken out by the Council plus any relevant long term liabilities. The Gross External Debt should not exceed the Operational Boundary for external debt. For 2019/20 £6.5M is required to be

The Net Borrowing is defined as gross external debt less investments. The net borrowing requirement may not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the estimates of any additional financing.

Capital Financing Requirement

	31/03/2017	31/03/2018	31/03/2018	31/03/2018	31/03/2018	31/03/2019	31/03/2020	31/03/2021
	Actual	Original Estimate February 2017	Revised September 2017	Revised Estimate February 2018	Actual	Revised February 2018	Revised February 2018	Revised February 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Capital Financing Requirement GF	14,769	14,485	14,769	28,971	15,623	35,666	37,251	38,103
Capital Financing Requirement HRA	208,506	208,265	208,506	208,709	206,253	208,709	208,709	208,709
Total Capital Financing Requirement	**223,275**	**222,750**	**223,275**	**237,680**	**221,876**	**244,376**	**245,961**	**246,812**

The Capital Financing Requirement (CFR) reflects the amount of money the Council would need to borrow to fund it's capital programme. This is split between the Housing Revenue Account CFR (HRACFR) and the General Fund CFR (GFCFR).

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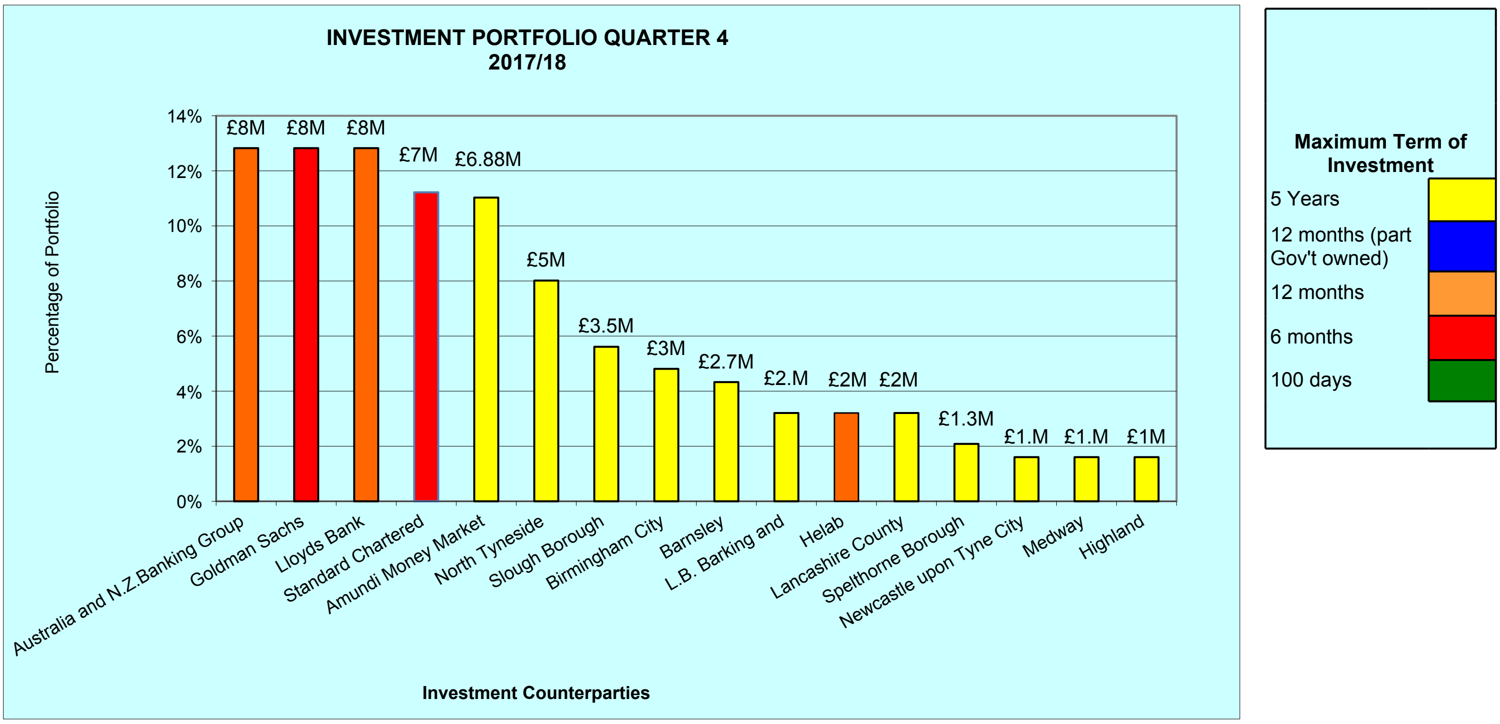
INVESTMENT PORTFOLIO QUARTER 4 (31st March 2018) — Appendix B

Average interest rate for 2016/17	**0.57%**
Average interest rate for 2017/18	**0.58%**
Bank of England Bank Rate	**0.50%**

Borrower	Nation	Sovereign Rating (Fitch)	Amount £'s	From	To	Rate %
Money Market Funds (Instant Access)						
Amundi	UK	AA	6,880,000			0.51
95 Day Notice						
Standard Chartered Bank	UK	AA	7,000,000			0.78
Fixed Term Deposit						
London Borough of Barking and Dagenham	UK	AA	2,000,000	09/01/17	09/04/20	0.98
Newcastle upon Tyne City Council	UK	AA	1,000,000	03/04/17	03/04/20	1.00
Birmingham City Council	UK	AA	3,000,000	24/04/17	24/04/19	0.80
Spelthorne Borough Council	UK	AA	1,300,000	22/06/17	21/06/19	0.70
Australia and New Zealand Banking Group Limited	AUS	AAA	5,000,000	05/09/17	05/09/18	0.50
Barnsley Metropolitan Borough Council	UK	AA	2,700,000	15/09/17	15/09/21	0.98
Goldman Sachs International	UK	AA	1,700,000	19/10/17	19/04/18	0.65
Lloyds Bank plc	UK	AA	5,000,000	24/11/17	23/11/18	0.90
Australia and New Zealand Banking Group Limited	AUS	AAA	3,000,000	24/11/17	24/05/18	0.59
North Tyneside Metropolitan Borough Council	UK	AA	5,000,000	18/12/17	17/12/18	0.75
Slough Borough Council	UK	AA	3,500,000	20/12/17	20/06/18	0.55
Landesbanken Hessen-Thueringen Girozentrale (Helaba)	GER	AAA	2,000,000	10/01/18	10/10/18	0.71
Goldman Sachs International	UK	AA	2,300,000	17/01/18	17/07/18	0.71
Lloyds Bank plc	UK	AA	3,000,000	24/01/18	23/01/19	0.85
Goldman Sachs International	UK	AA	4,000,000	14/02/18	14/08/18	0.72
Medway Council	UK	AA	1,000,000	02/03/18	19/04/18	0.65
Highland Council	UK	AA	1,000,000	14/04/16	16/04/18	0.98
Lancashire County Council	UK	AA	2,000,000	06/09/16	06/09/18	0.58
			62,380,000			



LOAN PORTFOLIO QUARTER 4 (31st March 2018)

Decent Homes Borrowing

Lender	Type	Rate %	Amount £'s	From	To	Life of Loan
PWLB	Fixed Rate/Maturity	4.11	1,241,000	31/03/2011	31/03/2018	7 years
PWLB	Fixed Rate/Maturity	4.75	2,000,000	04/03/2010	04/03/2035	25 years
PWLB	Fixed Rate/Maturity	4.28	1,800,000	25/05/2010	25/05/2035	25 years
PWLB	Fixed Rate/Maturity	4.24	963,000	17/08/2010	17/08/2035	25 years
PWLB	Fixed Rate/Maturity	4.65	3,000,000	25/03/2010	25/09/2035	25 1/2 years
			9,004,000			

Self Financing Borrowing

Lender	Type	Rate %	Amount £'s	From	To	Life of Loan
PWLB	Fixed Rate/Maturity	2.92	500,000	28/03/2012	28/03/2026	14 years
PWLB	Fixed Rate/Maturity	3.01	8,000,000	28/03/2012	28/03/2027	15 years
PWLB	Fixed Rate/Maturity	3.08	8,700,000	28/03/2012	28/03/2028	16 years
PWLB	Fixed Rate/Maturity	3.15	9,600,000	28/03/2012	28/03/2029	17 years
PWLB	Fixed Rate/Maturity	3.21	10,600,000	28/03/2012	28/03/2030	18 years
PWLB	Fixed Rate/Maturity	3.26	11,000,000	28/03/2012	28/03/2031	19 years
PWLB	Fixed Rate/Maturity	3.30	16,000,000	28/03/2012	28/03/2032	20 years
PWLB	Fixed Rate/Maturity	3.34	17,500,000	28/03/2012	28/03/2033	21 years
PWLB	Fixed Rate/Maturity	3.37	17,600,000	28/03/2012	28/03/2034	22 years
PWLB	Fixed Rate/Maturity	3.40	17,300,000	28/03/2012	28/03/2035	23 years
PWLB	Fixed Rate/Maturity	3.42	15,300,000	28/03/2012	28/03/2036	24 years
PWLB	Fixed Rate/Maturity	3.44	21,000,000	28/03/2012	28/03/2037	25 years
PWLB	Fixed Rate/Maturity	3.46	18,200,000	28/03/2012	28/03/2038	26 years
PWLB	Fixed Rate/Maturity	3.47	19,611,000	28/03/2012	28/03/2039	27 years
PWLB	Fixed Rate/Maturity	3.48	4,000,000	28/03/2012	28/03/2040	28 years
			194,911,000			

Prudential Borrowing

Lender	Type	Rate %	Amount £'s	From	To	Life of Loan
Lancashire C.C.	Fixed Rate/Maturity	1.98	1,500,000	03/07/2013	03/07/2018	5 years
PWLB	Fixed Rate/EIP	2.37	1,315,789	19/08/2013	19/02/2022	9 1/2 years
PWLB	Fixed Rate	2.29	1,755,950	19/03/2018	19/03/2028	10 years
			4,571,739			

Total Borrowing	**208,486,739**

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