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# AUDIT COMMITTEE

**Date: Monday, 4 February 2019**
**Time: 6.00pm**
**Location: Shimkent Room - Shimkent Room - Daneshill House, Danestrete**
**Contact: Ian Gourlay (01438) 242703**
**committees@stevenage.gov.uk**

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

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## AGENDA

**PART 1**

**1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

**2. MINUTES - 20 NOVEMBER 2018**

To approve as a correct record the minutes of the meeting of the Committee held on 20 November 2018.
Pages 3 – 8

**3. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18**

To consider the Certification of Claims and Returns Annual Report 2017/18 prepared by Ernst & Young.
Pages 9 – 20

**4. LOCAL GOVERNMENT AUDIT BRIEFING**

To note the Local Government Briefing Paper for Quarter 3 prepared by Ernst and Young.
Pages 21 – 36

**5. DRAFT AUDIT PLANNING REPORT 2018/19**

To consider the Draft Audit Planning Report 2018/19 prepared by Ernst & Young.
Pages 37 – 78

**6. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2019/20**

To consider the Annual Treasury Management Strategy including Prudential Code Indicators for 2019/20.
Pages 79 - 110

## 7. SHARED INTERNAL AUDIT SERVICES (SIAS) - PROGRESS REPORT 2018/19

To consider the Internal Audit Progress Report and the Status of Critical and High Priority Recommendations.
Pages 111 – 128

## 8. URGENT PART 1 BUSINESS

To consider any Part 1 business accepted by the Chair as urgent.

## 9. 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.

## 10. PART II MINUTES - AUDIT COMMITTEE - 20 NOVEMBER 2018

To approve as a correct record the Part II section of the minutes of the meeting of the Committee held on 20 November 2018.
Pages 129 - 130

## 11. URGENT PART II BUSINESS

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

Agenda Published 25 January 2019

# STEVENAGE BOROUGH COUNCIL

## AUDIT COMMITTEE
## MINUTES

Date: Tuesday, 20 November 2018
Time: 6.00pm
Place: Shimkent Room - Daneshill House, Danestrete

| | |
|---|---|
| **Present:** | Councillors: Maureen McKay (Chair), John Gardner (Vice-Chair), Howard Burrell, Laurie Chester, Graham Lawrence and Graham Snell. Independent Member – Mr Geoff Gibbs. |
| **Also Present:** | Simon Martin (Shared Internal Audit Services)<br>Nick Jennings (Shared Anti-Fraud Services) |
| **Start / End Time:** | Start Time: 6.00pm<br>End Time: 7.07pm |

### 1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were received from Councillors David Cullen and John Lloyd.

There were no declarations of interest.

### 2 MINUTES - 12 SEPTEMBER 2018

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 12 September 2018 be approved as a correct record and signed by the Chair.

In respect of Minute 4 – SIAS Annual Report 2017/18, the Independent Member (Mr Geoff Gibbs) confirmed that he had just received the Ernst & Young toolkit for assessing the effectiveness of Audit Committees. He acknowledged that a full scale review might be costly, but felt that some form of self-assessment might be possible.

### 3 SHARED ANTI-FRAUD SERVICE (SAFS) - PROGRESS WITH DELIVERING THE 2018/19 ANTI-FRAUD ACTION PLAN

The Shared Anti-Fraud Manager presented a progress report on the Anti-Fraud Plan 2018/19.

The Shared Anti-Fraud Manager referred to the Government's Anti-Corruption Strategy 2018-22, which was a useful reference document for tackling bribery and corruption, especially from overseas sources.

The Shared Anti-Fraud Manager advised that the number of alleged fraud cases reported remained high. To the end of September 2018, SAFS had received 94 allegations of fraud; 113 cases were carried forward from 2017/18; and 91 cases were still under investigation.

The Committee noted that of the 35 cases investigated and closed during the year where fraud was identified, losses of £77,655 and savings of £91,853 were recorded.

In response to a Member's question, the Shared Anti-Fraud Manager confirmed that he was confident that all of the actions contained in the 2018/19 Action Plan would be completed by the end of March 2019.

It was **RESOLVED** that the work of Officers and the Shared Anti-Fraud Service (SAFS) in delivering the Anti-Fraud Plan 2018/19 be noted.

**4 SHARED ANTI-FRAUD SERVICE (SAFS) - COUNCIL ANTI-FRAUD PLAN 2017/2018**

The Shared Anti-Fraud Manager presented a report detailing the work of the Council and Shared Anti-Fraud Service (SAFS) in delivering the Anti-Fraud Action Plan 2017/18.

The Shared Anti-Fraud Manager drew attention to an interesting CIPFA document on all reported fraud in Local Government in the UK. He undertook to circulate this document to all Members of the Committee.

The Shared Anti-Fraud Manager advised that the SAFS/SBC Business Plan objectives for 2017/18 had been achieved, apart from the Anti-Fraud and Corruption Strategies, which it was planned to complete in 2018/19.

It was noted that all of the SAFS 2017/18 Key Performance Indicators had been met, with the exception of the one relating to "Success rate for cases investigated", which had achieved a 44% outcome against a target of 50%.

In response to a series of Members' questions, the Shared Anti-Fraud Manager replied as follows:

- Sometimes it was difficult to place a value on identified fraud, and so some of the figures in the report referred to irrecoverable losses to SBC as a result of fraudulent activity;
- Staff who reported fraud were provided feedback on the outcome (success or otherwise) of the case;
- Blue Badges – where these were removed from individuals due to fraudulent use, the costs attributed to this were recorded as savings (ie. the additional revenue gained by the individual using a regular parking space rather than a Blue Badge space);
- The majority of the type of Local Government fraud had not changed over the past 5 years (mostly Council Tax and Housing Benefit fraud), although certain areas of fraud had become much more sophisticated, especially due to the rise in "fake" companies, many of them based overseas; and
- Where no action had been taken on fraud allegations this was often due to the quality of the report; the fact that it did not fit into the SAFS remit (in which case it was referred to others organisations, such as the Department for Work &

Pensions); or the value of the alleged fraud could be dealt with administratively, without the need for further investigation.

It was **RESOLVED** that the work of the Council and Shared Anti-Fraud Service (SAFS) in delivering the Anti-Fraud Action Plan 2017/18 be noted.

## 5 SHARED INTERNAL AUDIT SERVICE (SIAS) - PROGRESS REPORT 2018/2019

The Committee received the Shared Internal Audit Service (SIAS) 2018/19 progress report for the period to 2 November 2018.

The SIAS Client Audit Manager confirmed that, since the preparation of the report, the final reports relating to the Cash & Banking and Council Tax audits had been issued, both with good assurance ratings.

The Committee was advised that, since the issue of the progress report, the number of SIAS billable days had increased from 178.5 to 185.

The SIAS Client Audit Manager confirmed that the dates pertaining to the Mobile Device Management and BYOD and TSS Improvement Plan Governance Audits, shown as May and June 2018 respectively, were the start dates for these audits. Final reports had not yet been issued due to the complexities of both of these audits and the need for a management response to the recommendations made.

The Committee noted that High Priority Audit Recommendations set out in the report related to CCTV and Cyber Security, and that Management Responses had been provided against each recommendation.

In respect of the CCTV recommendations, the Committee was informed that a shareholder review was taking place of the effectiveness of both the Joint CCTV Partnership and the CCTV company, with a view to ascertaining whether to expand the service or concentrate on the core functions.

It was **RESOLVED:**

1. That the Internal Audit Progress report be noted.

2. That the status of Critical and High Priority Recommendations be noted.

## 6 2018/2019 MID YEAR TREASURY MANAGEMENT REVIEW

The Committee considered a report which updated Members on Treasury Management activities in 2018/19 and reviewed the effectiveness of the 2018/19 Treasury Management and Investment Strategy, including the 2018/19 prudential and treasury indicators.

The Assistant Director (Finance & Estates) referred to some minor amendments to the report, including that the figure for “Total Borrowing” in the second column of the table at Paragraph 4.5.4 of the report should be £227,595.

The Assistant Director (Finance & Estates) commented that the average borrowing rate on loans as at 30 September 2018 was 3.37% and the average investment rate at the same date was 0.77% (compared to 0.58% earned in 20178/18).

The Assistant Director (Finance & Estates) advised that, as at 1 April 2018, the cash balances held by the Council totalled £62.4Million. Most of this sum was held on behalf of other parties or their use was restricted to capital projects which had already been identified.

The Committee noted that the report also recommended that, in the future, officers were authorised to undertake treasury management functions on behalf of any Council owned companies and Council Limited Liability Partnerships.

It was **RESOLVED:**

1. That Council be recommended to approve the 2018/19 Treasury Management Mid-Year review.

2. That Council be recommended to approve the latest list of approved Countries for investments, as set out in Appendix D to the report.

3. That Council be recommended to empower officers to undertake treasury management functions on behalf of Council wholly owned companies and/or Council Limited Liability Partnership (LLP), subject to authorisation from the Board of Directors (see Paragraph 4.5.12 of the report).

## 7 URGENT PART 1 BUSINESS

None.

## 8 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 items of business on the grounds that they 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 considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

## 9 STRATEGIC RISK REGISTER

The Committee considered the Council's latest Strategy Risk Register.

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

It was **RESOLVED:**

1. That the latest Strategic Risk Register (Appendices A1 - A3 to the report) be noted.

2. That the developments on risk management issues be noted.

**10 URGENT PART II BUSINESS**

None.

**11 PART II MINUTES AUDIT COMMITTEE 12 SEPTEMBER 2018**

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 12 September 2018 be approved as a correct record and signed by the Chair.

**CHAIR**

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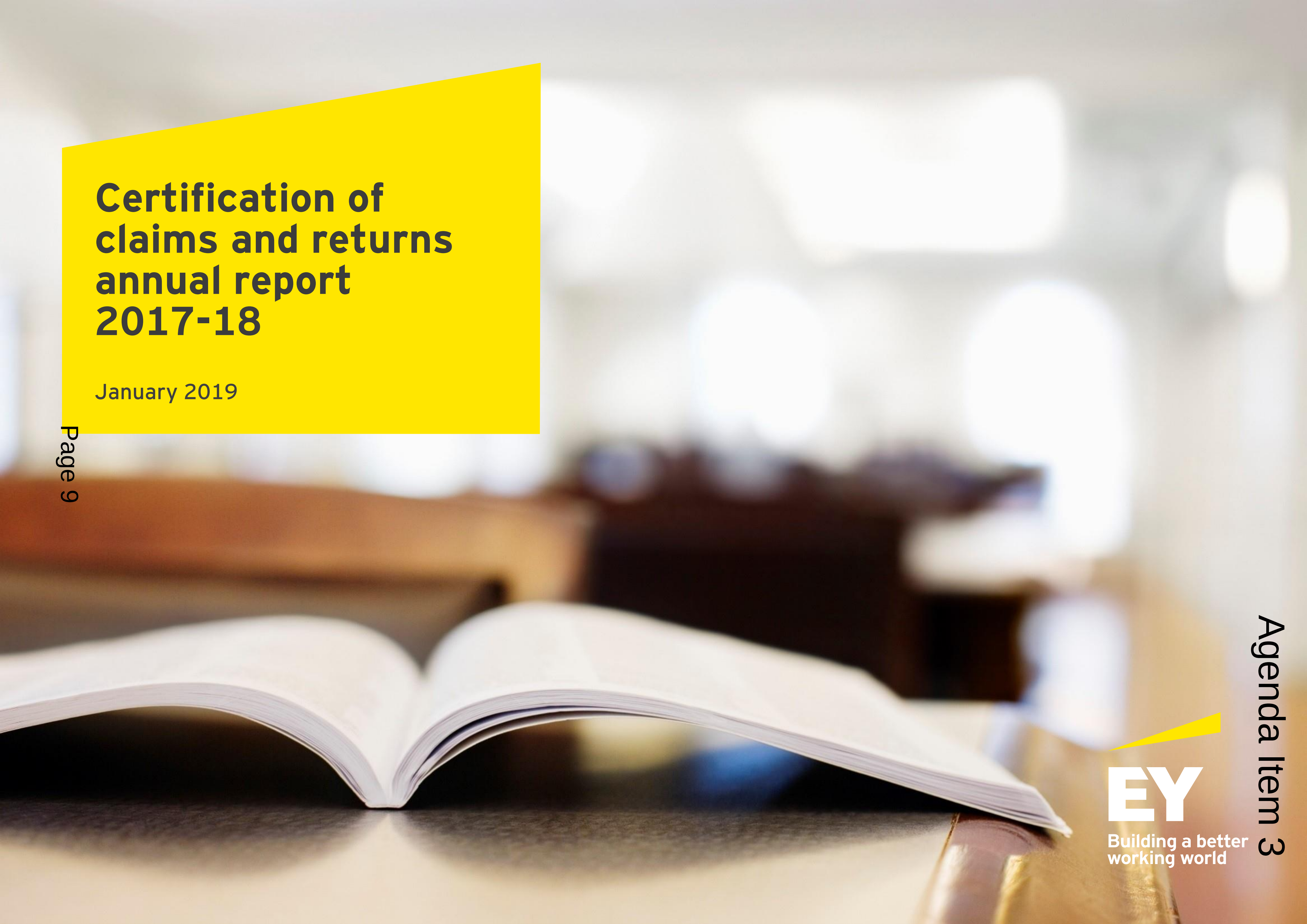

# Certification of claims and returns annual report 2017-18

January 2019

Page 9

Agenda Item 3

EY

Building a better working world

# Contents

# 01 Housing benefits subsidy claim

# Housing benefits subsidy claim

| Scope of work | Results |
|---|---|
| Value of claim presented for certification | £32,072,189 |
| Amended/Not amended | Amended – subsidy reduced by £99 |
| Qualification letter | Yes |
| Fee – 2017-18 | £16,145 (this is subject to agreement by PSAA) |
| Fee – 2016-17 | £10,344 |

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. Errors were found in the initial testing and extended testing was required in several areas.

The extended testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- There were 4 cases in the initial sample of rent allowance cases where the value used for earned income was incorrect resulting in under/overpayments to claimants. There were a further 6 cases with errors found in the extended testing. Our calculation on an extrapolated basis of the overpayment errors over the rent allowance population for cases with earned income (£2.7m) was £26,188. Underpayment errors are not extrapolated since the Council has, by definition, not paid these amounts out and therefore there is no impact on subsidy.
- An extended sample was tested for rent allowance cases with self employed income as there had been errors found in the 2016-17 certification work. Whilst there were no errors in the initial sample for 2017-18 the extended testing found 5 cases where benefit was under/overpaid due to the incorrect calculation of self employed earnings. For a further 2 cases there were errors found but these did not affect the level of benefit paid to the claimant. Our extrapolation of the overpayment errors was £416.
- For rent rebate cases with self employed income one error was found in the initial sample. Whilst this did not result in an under/overpayment to the claimant errors in income calculation can impact the benefit awarded and therefore an extended sample was tested. This found 4 cases where benefit had been over/underpaid and 11 other cases where although the calculation of the income was incorrect it did not affect the benefit awarded. The overpayment errors when extrapolated for rent rebate cases was £2,915.
- An error was found in the initial testing for rent allowances for extended payments. The shared service team tested all extended payments and the subsidy claimed was reduced in respect of this by £99.

An error was also found in the calculation of ineligible charges for rent allowance cases in the initial sample and all the cases with ineligible charges were tested. This found that the total error was below £1 where benefit had been overpaid and therefore no amendment was made to the claim in respect of this. The testing did identify that claimants had been underpaid by £259 but as there is no eligibility for subsidy where the expenditure has not been incurred there is no adjustment for this.

# 02 2017-18 certification fees

# 2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

| Claim or return | 2017-18 | 2017-18 | 2016-17 |
|---|---|---|---|
| | **Actual fee £** | **Indicative fee £** | **Actual fee £** |
| Housing benefits subsidy claim | £16,145 | £10,911 | £10,344 |

The indicative fee for 2017-18 was based on the outturn fee for the certification of the 2015-16 housing benefit return. In that year there were two extended samples. The initial testing in 2015-16 was undertaken by the EY team. In 2017-18 five extended samples were required on earned income (rent allowances), self employed income (both rent allowance and rent rebates), extended payments (rent allowances) and ineligible charges (rent allowances). The initial sample and the extended sample testing were both undertaken by the shared service. We have taken into account the input from the shared service team in undertaking the testing but have had to increase the fee overall due to the extended testing which involves the EY team in reviewing more cases than in 2016-17, calculating extrapolated errors and drafting a qualification letter. The fee set out above for 2017-18 is subject to agreement by the Chief Finance Officer and PSAA.

# 03 Looking forward

# Looking forward

**2018/19 and beyond**

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we would be only too pleased to undertake this work for you and realise the synergies and efficiencies that can be achieved from undertaking both the audit and the grant work and as invited have submitted a quote for the certification of the housing benefit return.

# 04 Summary of recommendations

# Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

| Recommendation | Priority | Agreed action and comment | Deadline | Responsible officer |
|---|---|---|---|---|
| Consideration should be given to providing further training for staff on the assessment of self employed income as this continues to be an area where errors are being made. | Medium | A refresher session for relevant staff on self employed cases will be run | 31 March 2019 | Head of Revenues and Benefits Service |

EY | Assurance | Tax | Transactions | Advisory

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ED None



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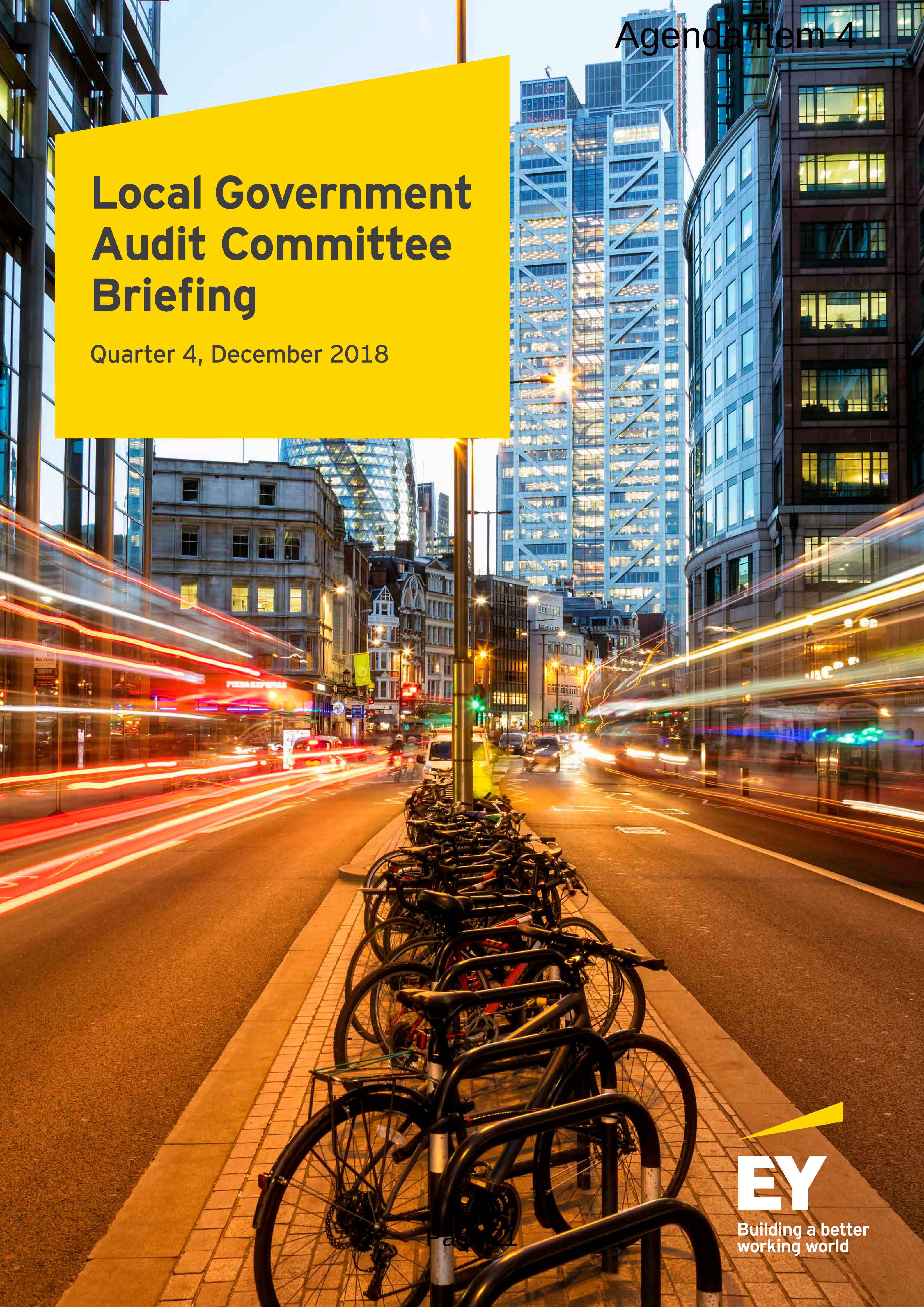
# Local Government Audit Committee Briefing

Quarter 4, December 2018



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 Club Item

The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

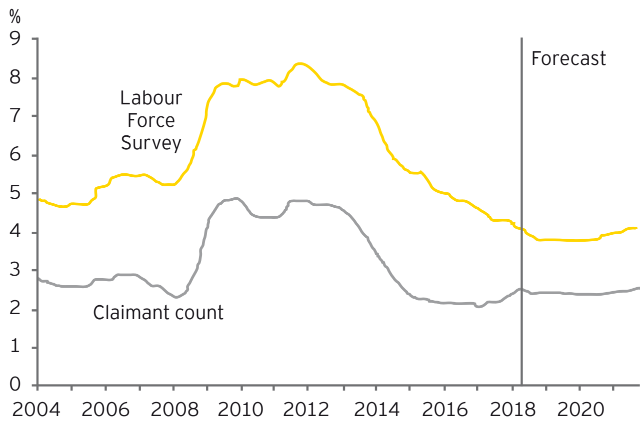
The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.

Figure 1

**UK: Unemployment rate**




Source: EY ITEM Club

The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993–2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

## As Brexit beckons, what is the impact that local authorities can expect across the UK?

With increasing focus on a potential extension to the Brexit transitionary period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

### The impact on social care provision:

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

### The impact on supply chains and logistics:

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

### Consumer demand:

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

### Impact on property and agricultural land prices.

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

## Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health, social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

## CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.

# Accounting, auditing and governance

## IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 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.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

## Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

## Local Public Audit — Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.
4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.

# Regulation news

## PSAA: Report on results of 2017/18 audits

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.

# Other

## EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

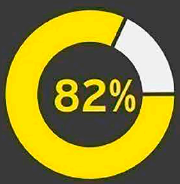
It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

# 2018 Highlights

## Audit quality

### External review




82% of EY's FTSE 350 audits and 67% of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

No FRC fines for audit work completed in the last five years and no sanctions against EY UK partners in respect of that period

### Internal review

108 engagements reviewed in FY18, covering

47% of our

**Responsible Individuals**, of

which 81% had

no improvements or minor improvements only

### Delivery

Of our people in Audit


96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest


The result of the FRC's most recent review of out audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

# Find out more

## EY Club Item

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

### 2018 Budget

https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know

https://www.local.gov.uk/about/news/lga-responds-budget-2018

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018

https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf

## CIPFA Investment Guidance

https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges

## Local Public Audit — Expectations gap

https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap

https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en

## IFRS 9: Statutory Override

https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years

## Public Sector Pension Scheme Valuation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf

https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/

## PSAA: Report on results of 2017/18 audits

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

### EY Transparency Report 2018

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf

# Notes

Page 33

# Notes

# Notes

Page 35

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ED None

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# Stevenage Borough Council
## Audit planning report
Year ended 31 March 2019

23 January 2019

Page 37

Agenda Item 5

Building a better working world

Private and Confidential

23 January 2019

Stevenage Borough Council
Daneshill House
Danestrete
Stevenage, SG1 1HN

Dear Audit Committee Members,

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 04 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

# Contents





Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Stevenage Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Stevenage Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Stevenage Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Overview of our 2018/19 audit strategy

# Overview of our 2018/19 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|---|---|---|
| Risk of Management Override | Fraud risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Capitalisation of revenue expenditure | Fraud risk | No change in risk or focus | The Local Authority Accounting Code of Practice and IAS16 requires the Council to capitalise expenditure where future economic benefit or service potential will flow to the council. Due to the Council's expanded capital programme and significant regeneration schemes there is a risk that revenue expenditure may be inappropriately capitalised. |
| Property, Plant and Equipment Valuations | Inherent Risk | No change in risk or focus | Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.<br>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under or overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. |
| Pension Valuation and Disclosures | Inherent Risk | No change in risk or focus | The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet<br>Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk. |

Page 41

# Overview of our 2018/19 audit strategy

**Audit risks and areas of focus (Continued)**

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|---|---|---|
| New Accounting Standards | Area of focus | New area of focus | For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts. |
| Group Accounts Assessment | Area of focus | New area of focus | During 2018/19 the Council established a new wholly owned company (Marshgate Ltd) which has entered into a limited liability partnership as part of the Queensway redevelopment. The Council will need to assess the accounting and disclosure impact for 2018/19 financial statements. |
| Housing Revenue Account (HRA) depreciation | Area of focus | New area of focus | Depreciation on dwellings and other assets is required to be calculated in accordance with proper accounting practices. We are aware from discussions with officers that there are plans to review the way that the Council accounts for the various components that are identified for dwellings on which depreciation is calculated. We will review the proposals and the basis for componentisation. |
| Future Town, Future Council: Decision Making Processes | Significant Risk - Value for Money | Change in focus of risk | The Council has ambitious plans for the regeneration of the town centre. The key decisions taken during 2018/19 include:<br>• Queensgate redevelopment with "Reef" via an income strip arrangement<br>• Financing options for the development of Stevenage Bus Station<br>Significant resources including senior officer time are invested in the project. We need to be assured that suitable arrangements have been put in place for the decision making processes for these schemes. |
| Financial Resilience of Medium Term Financial Strategy | Significant Risk - Value for Money | Change in focus of risk | As stated above the Council has ambitious plans for the regeneration of the town centre. The costs of the redevelopment schemes, including the amount of minimum revenue provision required, has implications for the level of reserves held by the Council. In addition the Council has planned to achieve a net revenue return from its property investment strategy although acquisitions under the strategy have been limited to date. We need to be assured of the financial resilience of the Council's Medium Term Financial Strategy taking into account the various developments. |

# Overview of our 2018/19 audit strategy

**Materiality**

Planning materiality
£2.2m

Materiality has been set at £2.2m, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality
£1.6m

Performance materiality has been set at £1.6m, which represents 75% of materiality.

Audit differences
£108k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £108k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2018/19 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Stevenage Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

The scope of our work is enhanced due to:

- The value for money risks relevant to the "Future Town, Future Council" regeneration scheme, including the Queensgate redevelopment and the financing options for the redevelopment of Stevenage Bus Station. These are likely to require additional senior staff time and will result in additional fee.

# 02 Audit risks

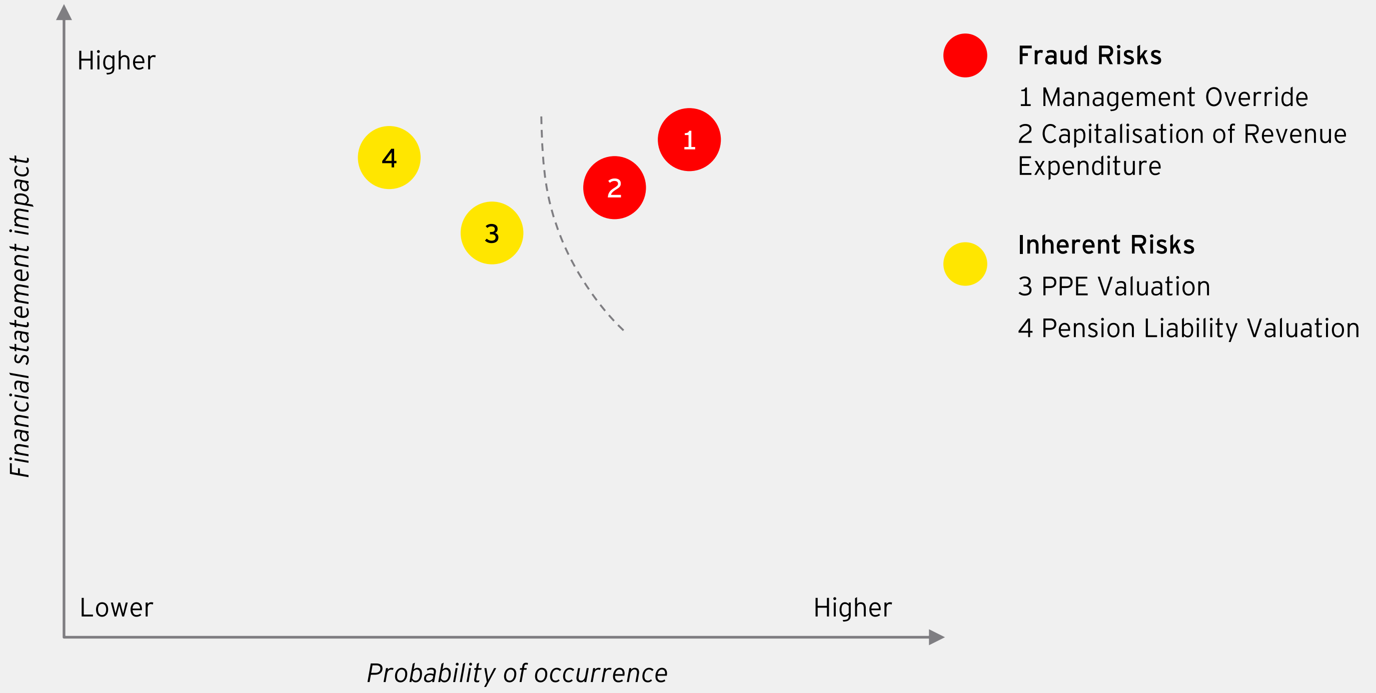
# Risk assessment

**Risk assessment**

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017/18 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact the 2018/19 audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:





# Our response to significant risks

**We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.**

**Risk of Management Override***



**What is the risk?**

The financial statements as a whole are not free of material misstatements due to management override of controls.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

**What will we do?**

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks. These include:
    - Testing the appropriateness of journal entries made in the general ledger and other adjustments made in the preparation of the financial statements;
    - Reviewing accounting estimates for evidence of management bias, including bad debt provision and provision for business rates appeals;
    - Evaluating the business rationale for significant unusual transactions.

# Our response to significant risks (continued)

**We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.**

| Capitalisation of Revenue Expenditure* | What is the risk? | What will we do? |
| --- | --- | --- |
| | The Local Authority Accounting Code of Practice and IAS16 requires the Council to capitalise expenditure where future economic benefit or service potential will flow to the council.<br><br>The Council has a significantly expanded it's capital programme, it has a large investment property acquisition strategy and also has ambitious redevelopment plans for the town centre. The January 2019 draft capital strategy for 2018/19 to 2023/24 shows an updated working budget for the general fund of £15.6m and for the housing revenue account £23.5m, a total of £39.1m Total additions in 2017/18 were £21m. As such there is an increased risk that costs which do not met the accounting standard criteria for recognition as capital expenditure  may be capitalised. | ▸ Inquire of management to gain an understanding of the controls put in place to address this risk.<br>▸ Test a sample of capital expenditure for Property, Plant and Equipment (including capital additions made to the Housing Revenue Account) and Investment Properties to verify that revenue costs have not been inappropriately capitalised. |

# Areas of audit focus – Inherent Risks

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Valuation of Land and Buildings**<br><br>The fair value of Property, Plant and Equipment (PPE), Investment Properties (IP) and Council Dwellings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. | We will:<br>▸ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<br>▸ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);<br>▸ Considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;<br>▸ Consider changes to useful economic lives as a result of the most recent valuation; and<br>▸ Test accounting entries have been correctly processed in the financial statements, |
| **Pension Liability Valuation**<br><br>The Local Authority Accounting Code of Practice 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.<br>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £50 million.<br>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.<br>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | We will:<br>▸ Liaise with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Stevenage Borough Council;<br>▸ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and<br>▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. |

# Other areas of audit focus

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **New Accounting Standards**<br><br><u>IFRS 9 financial instruments</u><br>This is applicable for local authority accounts for the 2018/19 financial year and will change:<br>▸ How financial assets are classified and measured;<br>▸ How the impairment of financial assets are calculated; and<br>▸ The disclosure requirements for financial assets. | We will:<br>▸ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;<br>▸ Consider the classification and valuation of financial instrument assets;<br>▸ Review new expected credit loss model impairment calculations for assets; and<br>▸ Check additional disclosure requirements. |
| <u>IFRS 15 Revenue from contracts with customers</u><br>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.<br><br>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where relevant the recognition of revenue will change and new disclosure requirements introduced.<br><br>The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9 and 15. | We will:<br>▸ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.<br>▸ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and<br>▸ Check additional disclosure requirements. |
| **Group Accounts Assessment**<br><br>During 2018/19 the Council established a new wholly owned company (Marshgate Ltd) which has entered into a limited liability partnership as part of the Queensway redevelopment. The Council will need to assess the accounting and disclosure impact for 2018/19 financial statements.<br><br>There is a risk that that financial statements are not prepared on the correct basis or that material disclosures are omitted. | We will:<br>▸ Review the council's assessment of the accounting and disclosure implications of the establishment of the new company.<br>▸ Use the CIPFA disclosure checklist to verify that all appropriate disclosures are made<br>▸ Should group accounts be required we will need to review the consolidation of balances from the components in the group. We would also need to consider the impact of any significant quantitative or qualitative judgements made in the accounts preparation that impact on our audit risk. |

Page 50

# Other areas of audit focus (continued)

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Housing Revenue Account (HRA) Depreciation**<br><br>The charges to the HRA for capital are prescribed under the Item 8 determination published by the Ministry of Housing and Local Government. This requires that depreciation is charged to the HRA in accordance with proper accounting practice. We are aware that officers have been reviewing how the various components of dwellings, for example expenditure on kitchens, windows etc is accounted for which may have an impact on the level of depreciation charged. | We will:<br><br>▸ Review the basis on which components are recognised and accounted for in the fixed asset register.<br>▸ Where any changes are proposed we will review whether there is a risk of material error or misstatement in the calculation of depreciation charges. |

# 03 Value for Money Risks

# Value for Money

## Background

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.

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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.

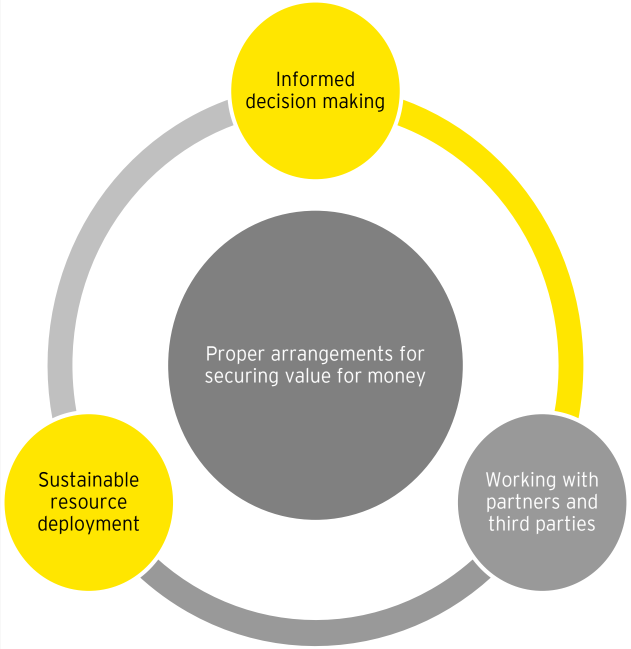
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this will include consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Future Town, Future Council: Decision Making Processes**<br><br>The Council has an ambitious programme for the regeneration of Stevenage. There are major developments planned for Queensway and the Bus Station in the town centre. The approach has included the establishment of a complex joint venture for Queensway. | Take informed decisions | Our approach will focus on the arrangements and due diligence that the Council has put in place for key decisions regarding the Queensway and Bus Station developments being undertaken as part of the town centre regeneration, including:<br>▸ Consideration of expert legal, financial, and specialist sector advice (retail).<br>▸ Compliance with prevailing legislation such as public contracts regulations, general powers of competence and State Aid.<br>▸ Compliance with prevailing prudential code guidelines and requirements.<br>▸ Appropriate consideration of risks and alternatives in determining that any funding and borrowing decisions represent the best value for money decision for Stevenage BC and its taxpayers.<br>If necessary we will use expert colleagues from our transactions advisory services team to support our audit procedures in this area. |
| **Financial Resilience of Medium Term Financial Strategy**<br><br>The developments referred to above have implications for the Council's medium term financial strategy. While the Council has balances above the minimum determined by the Chief Finance Officer its balances are at a lower level than some other Hertfordshire districts. | Deploy resources in a sustainable manner | Our approach will focus on:<br><br>▸ The adequacy of the Council's budget setting process including the robustness of any assumptions used in medium term planning;<br>▸ The effective use of scenario planning to assist the budget setting process;<br>▸ The effectiveness of in year monitoring against the budget;<br>▸ The Council's success in prioritising resources whilst maintaining services;<br>▸ The new developments in 2018/19 and planned for the future including the Queensway and the Bus Station and how the costs arising from these, both capital and revenue, have been taken into account in the medium term financial strategy<br>▸ The savings plans and concepts in place, including the property investment strategy, and assessing the likelihood of whether these can provide the Council with the required savings/efficiencies over the medium term. |

# 04 Audit materiality

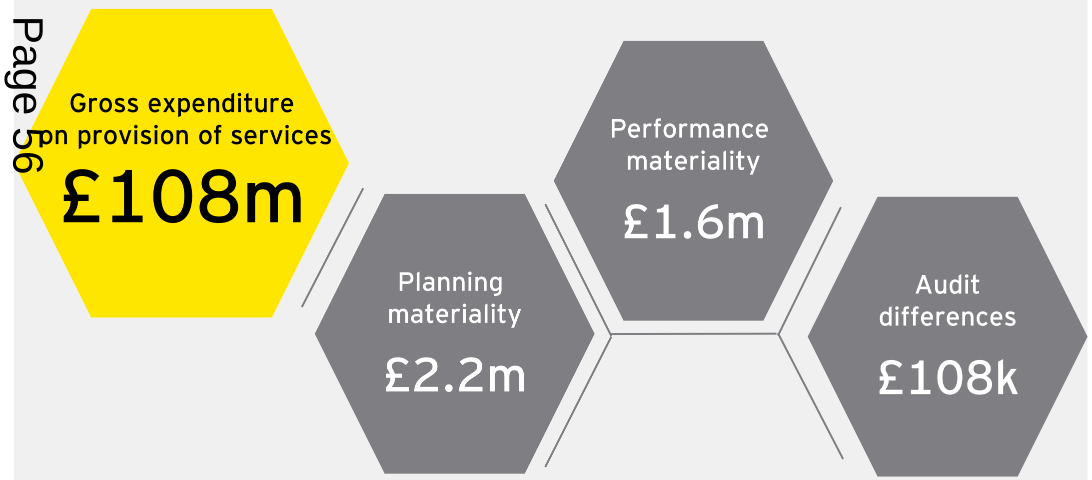
# Audit materiality

## Materiality

**Materiality**

For planning purposes, materiality for 2018/19 has been set at £2.2m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.






We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

**Key definitions**

**Planning materiality –** the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality –** the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.6m which represents 75% of planning materiality. This is consistent with the prior year audit.

**Audit difference threshold –** we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality of £10k for specific account disclosure e.g. remuneration disclosures , related party transactions, members' allowances and exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

**Group accounts**

Should there be a requirement for group accounts in 2018/19 we will set separate group values for planning and performance materiality, and a group audit differences amount. We will communicate these to Members in our Audit Results Report.

# 05 Scope of our audit

# Our Audit Process and Strategy

**Objective and Scope of our Audit scoping**

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.



**Procedures required by standards**

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

**Procedures required by the Code**

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

**2. Arrangements for securing economy, efficiency and effectiveness (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.

# Our Audit Process and Strategy (continued)

**Audit Process Overview**

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:
We will regularly review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

# Scope of our audit

## Our Audit Process and Strategy (continued)

**Earlier deadline for production of the financial statements**

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts was brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics and changes of personnel with the finance team and we are aware that there have been a number of changes to the Finance team in 2018/19.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.



If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Work with the Council to improve the use of EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on -demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree the timing of each element of our work, including supporting working papers, with you.

# 06 Audit team

# Audit team

**Audit team structure:**

Page 62

| |
|---|
| **Neil Harris**<br>Lead Audit Associate Partner |
| **Kay Storey**<br>Manager |
| **Robert Garnett**<br>Senior |

# Audit team

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists can provide input for the current year audit are set out below. We would only call upon the EY Valuations Team if there are any special considerations that suggest that this is required, for example unexpected movements in asset values, or if we require support on valuation assumptions. The EY Valuations Team undertake a review of the methodology and approach applied by Wilks Head Eve, the Council's own specialist and share the findings with audit teams.

| Area | Specialists |
|---|---|
| Valuation of Land and Buildings | EY Valuations Team |
| Pensions disclosure | EY Actuaries |
| HRA componentisation | EY Financial Accounting Advisory Service |



In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# 07 Audit timeline

# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|---|---|---|
| Planning:<br>Risk assessment and setting of scopes. | **January/February** | 4th February: Audit Committee | Audit Planning Report |
| Interim audit:<br>• Walkthrough of key systems and processes<br>• Early substantive testing | **March** | | |
| Year end audit | **June** | | |
| Audit Completion Procedures | **July** | Audit Committee July (Date not yet confirmed) | Audit Results Report |
| Conclusion of reporting | **September** | Audit Committee September (Date not yet confirmed) | Annual Audit Letter |

Page 65

# 08 Independence

# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|---|---|
| **Planning stage** | **Final stage** |
| ▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;<br>▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>▸ The overall assessment of threats and safeguards;<br>▸ Information about the general policies and process within EY to maintain objectivity and independence.<br>▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] | ▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;<br>▸ Details of non-audit services provided and the fees charged in relation thereto;<br>▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;<br>▸ Written confirmation that all covered persons are independent;<br>▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;<br>▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and<br>▸ An opportunity to discuss auditor independence issues. |

Page 67

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any.  We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

**Overall Assessment**

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

**Self interest threats**

A self interest threat arises when EY has financial or other interests in the Council.  Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.  At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office’s Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 13%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you.  We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

**Self review threats**

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

**Management threats**

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council.  Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

# Relationships, services and related threats and safeguards

| Other threats |
| --- |
| Other threats, such as advocacy, familiarity or intimidation, may arise.<br>There are no other threats at the date of this report. |

# Other communications

| EY Transparency Report 2018 |
| --- |
| Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.<br>Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:<br>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018 |

# 09 Appendices

# Appendix A

## Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

| | Planned fee 2018/19 | Scale fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|
| | £ | £ | £ |
| Total Fee – Code work | 49,283 ~ | 49,283 | 66,405* |
| Certification of Housing Benefit Claim (PSAA) | n/a | n/a | 16,145** |
| Certification of Housing Benefit | 7,600*** | n/a | n/a |
| Total fees | £56,883 | £49,283 | £82,550 |

***All fees exclude VAT***

- The fee includes £2,401 additional fee for additional work undertaken on the value for money conclusion in 2017/18 and additional audit time incurred regarding submission of data for analysis. This is subject to the agreement by PSAA and the Council's Chief Finance Officer, this process is ongoing.

** The fee for 2017/18 under the PSAA contract includes £5,234 for three extended samples over and above the two budgeted for in the scale fee for that year. This fee is also subject to agreement by PSAA and the Council's Chief Finance Officer, again the process is ongoing.

*** We have been appointed to be the reporting accountant for the Housing Benefit Claim. An engagement letter is yet to be agreed but the proposed bas fee for the certification of the housing benefit return is £7,600. Each extended sample attracts a fee of £2,400, for information there were five extended samples in 2017/18.

~The planned fee for 2018/19 is likely to be affected by a scale fee variation for work required for the value for money conclusion reviewing the arrangements for the Queensgate development and Stevenage Bus Station. In addition there will be an increased fee required for the review of HRA componentisation.

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. Any variation to the fee needs to be approved by PSAA.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

# Appendix B

## Required communications with the Audit Committee

**We have detailed the communications that we must provide to the Audit Committee.**

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit results report |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▶ Whether the events or conditions constitute a material uncertainty<br>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▶ The adequacy of related disclosures in the financial statements | Audit results report |
| Misstatements | ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▶ The effect of uncorrected misstatements related to prior periods<br>▶ A request that any uncorrected misstatement be corrected<br>▶ Corrected misstatements that are significant<br>▶ Material misstatements corrected by management | Audit results report |
| Fraud | ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▶ A discussion of any other matters related to fraud | Audit results report |
| Related parties | ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▶ Non-disclosure by management<br>▶ Inappropriate authorisation and approval of transactions<br>▶ Disagreement over disclosures<br>▶ Non-compliance with laws and regulations<br>▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report |

# Required communications with the Audit Committee (continued)

| Required communications | What is reported? | Our Reporting to you — When and where |
|---|---|---|
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▶ The principal threats<br>▶ Safeguards adopted and their effectiveness<br>▶ An overall assessment of threats and safeguards<br>▶ Information about the general policies and process within the firm to maintain objectivity | Audit Planning Report and Audit Results Report |
| External confirmations | ▶ **Management's refusal for us to request confirmations**<br>▶ **Inability to obtain relevant and reliable audit evidence from other procedures** | Audit results report |
| Consideration of laws and regulations | ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off<br>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | Audit results report |
| Internal controls | ▶ Significant deficiencies in internal controls identified during the audit | Management letter/audit results report |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit planning report<br>Audit results report |
| Certification work | Summary of certification work undertaken | Certification report |

Page 75

# Appendix C

# Additional audit information

| Other required procedures during the course of the audit | |
|---|---|
| In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit. | |
| **Our responsibilities required by auditing standards** | ▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.<br>▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.<br>▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br>▸ Concluding on the appropriateness of management's use of the going concern basis of accounting.<br>▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.<br>▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and<br>▸ Maintaining auditor independence. |

Page 76

# Additional audit information (continued)

**Purpose and evaluation of materiality**

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Part I – Release to Press

Agenda item: ##

**Meeting** Audit/ Executive/ Council

**Portfolio Area** Resources

**Date** 04 February/ 13 February/ 27 February 2019


**ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2019/20**

*NON KEY DECISION*


*Author –Anita Thomas* *Ext 2430*
*Contributors – Clare Fletcher* *Ext.2933*
*Lead Officer –Clare Fletcher* *Ext 2933*
*Contact Officer – Clare Fletcher* *Ext 2933*


## 1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management[1] Strategy 2019/20 including its Annual Investment Strategy and the prudential indicators following considerations from Audit and Executive committees.

## 2 RECOMMENDATIONS

2.1 That subject to any comments from Audit Committee, the Treasury Management Strategy is recommended to Executive and Council for approval.

[1] CIPFA definition of treasury management and investments as " the management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

2.2 That Members approve draft prudential indicators for 2019/20.

2.3 That Members approve the minimum revenue provision policy.

2.4 That it be noted that no changes are being proposed to treasury limits contained within the Council's treasury management policies.

2.5 That Member's note the investment services provide to Queensway Properties LLP (see para 4.12.3)

## 3 BACKGROUND

3.1 The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report), is the first and most important of the three and includes:

- Treasury Management Strategy
- Investment Strategy
- Capital Plans and prudential indicators
- Minimum Revenue Provision (MRP) policy

3.1.1 Before being recommended to Council the report is required to be adequately scrutinised and this is undertaken by the Audit Committee and Executive.

### 3.2 **Treasury Management Strategy**

3.2.1 The key principle and main priority of the Treasury Management Strategy (TMS) is to maintain security of principal invested and portfolio liquidity. With regard to this, the aims of the strategy are:

i) To ensure that there is sufficient counter party availability and to maintain required levels of liquidity so that the Council has cash available to meet its payment obligations to its suppliers.

ii) To look for possible changes to the TMS which would increase returns on investments made including alternative investment opportunities with the aim of increasing returns on investments whilst maintaining the security of the monies invested.

3.2.2 The 2018/19 Prudential Code Indicators and TMS Report were approved by Council on the 28 February 2018. That report noted that CIPFA proposed to make changes to the Treasury Management Code and Prudential Code and that government changes to the minimum revenue provision was under consultation at the time of approving the 2018/19 Treasury Management Strategy.

3.2.3 Following this consultation all local authorities must consider the risk and implications for non-treasury investments[2] (for example commercial property purchases) decisions. The Council has purchased commercial properties, however this has been to deliver regeneration and support economic growth in the borough of Stevenage and within the economic area as defined in Stevenage's Local Plan. Risk considerations and implications of commercial property purchases can be included in the annual TMS or, as is the case for Stevenage, in the Capital Strategy 2018/19-2023/24 report presented to Executive (23 January 2019). The Capital Strategy (section 4.5 – 4.6) provided:

- High level overview of how capital strategy, capital financing and treasury management activities contribute to council services,
- how the associated risk is managed,
- and implications for the future financial sustainability of the council.

3.2.4 The returns achievable on the Council's investments are currently modest based on the low Bank of England base rate and the risk appetite of the TM Strategy, which is compliant with the advice from the Council's treasury advisors, Link Asset Management. On 2 November 2017 the Monetary Policy Committee (MPC) approved the first increase in the base rate in eight years to 0.5% (from 0.25%) and a further increase to 0.75% on 2 August 2018. In 2018/19 investment returns of 0.9% are forecast with a target of 1.15% for 2019/20.

3.2.5 The impact of a no deal EU exit on sterling may result in higher borrowing costs in future PWLB (Public Works Loan Board) rates as these rates are linked to gilts. The HRA and General Fund capital strategies both have significant borrowing requirements over the next few years and officers continue to monitor movements in the borrowing rates. Further information on the potential impact of Brexit on the Council and its borrowing and investment activities was included in the Brexit report to the 23 January 2019 Executive.

## 4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 LEGISLATIVE AND OTHER CHANGES IMPACTING ON THE TREASURY MANAGEMENT STRATEGY

4.1.1 The revision to CIPFA Prudential Code and CIPFA Treasury Management Code came into force from 1st April 2018 and this is the first revision of the TMS under the new requirements.

4.1.2 The main changes introduced by CIPFA are:

[2] Non-financial, or non-treasury investments tend to relate to s 1 expenditure powers under the Act and be either: Policy type investments, whereby capital or revenue cash is advanced for a specific council objective or commercial type investments whereby the primary aim is to generate capital or revenue resources to facilitate council services.

- Removal of the following prudential indicators:

  Incremental impact of capital investment decisions on council tax and HRA rents

  Upper limit on fixed and variable interest rate exposure

  Upper and lower limits on maturity structure of borrowing

  Upper limit on total principle sums invested for over 364 days

- Capital Strategy to include investment decisions. This authority already complies as the Capital Strategy is approved by Council as part of the budget setting process.
- Inclusion of non-treasury investments (such as investment properties) in the Treasury Management Practices and publication of a Member approved list of non-treasury Investments.

4.2 **MiFIDII**

4.2.1 January 2018 saw the implementation of the EU legislation that regulates firms who provide financial services - the Markets in Financial Instruments Directive II (MiFID). This impacted on the Council as by placing investments and borrowing with other financial institutions the Council became a counterparty. The council gained "professional" status which enabled the Council to maintain its existing relationships with financial institutions and ability to use alternative financial instruments. There has been no change to the Council's professional status.

4.3 **Comments from the Audit Committee**

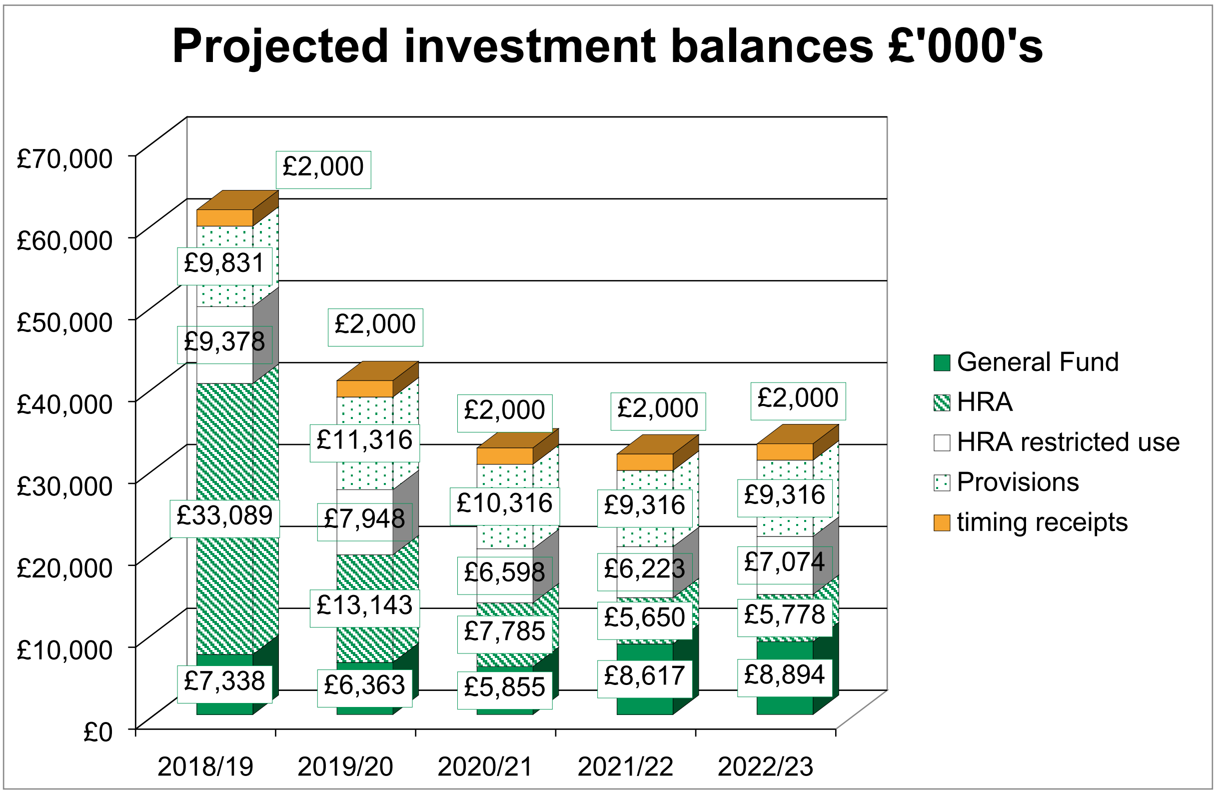
4.3.1 *To be incorporated into report to Executive and Council*.

4.4 **Performance of Current Treasury Strategy**

4.4.1 For the 2018/19 financial year to 31 December 2018 returns on investments have averaged 0.82% and total interest earned was £421,000 contributing to General Fund and Housing Revenue Account revenue income.

4.4.2 Cash balances as at 31 December 2018 were £63.18Million and are forecast to be £56.9Million as at 31 March 2019. The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals.

4.4.3 In considering the Council's level of cash balances, Members should note that the HRA Business Plan, General Fund MTFS and the Capital Strategy have a planned use of resources over a minimum of five and up to 30 year period, which means, while not committed in the current year, they are required in future years. This means that the Council's cash for investment purposes is projected to reduce from £59.6Million at 31 March 2019 to £30.3Million by 31 March 2023. In essence £29.3Million of investment balances are going to be used in the next four years for revenue and capital plans approved by Members. This impact on cash available to invest is shown in the chart below.

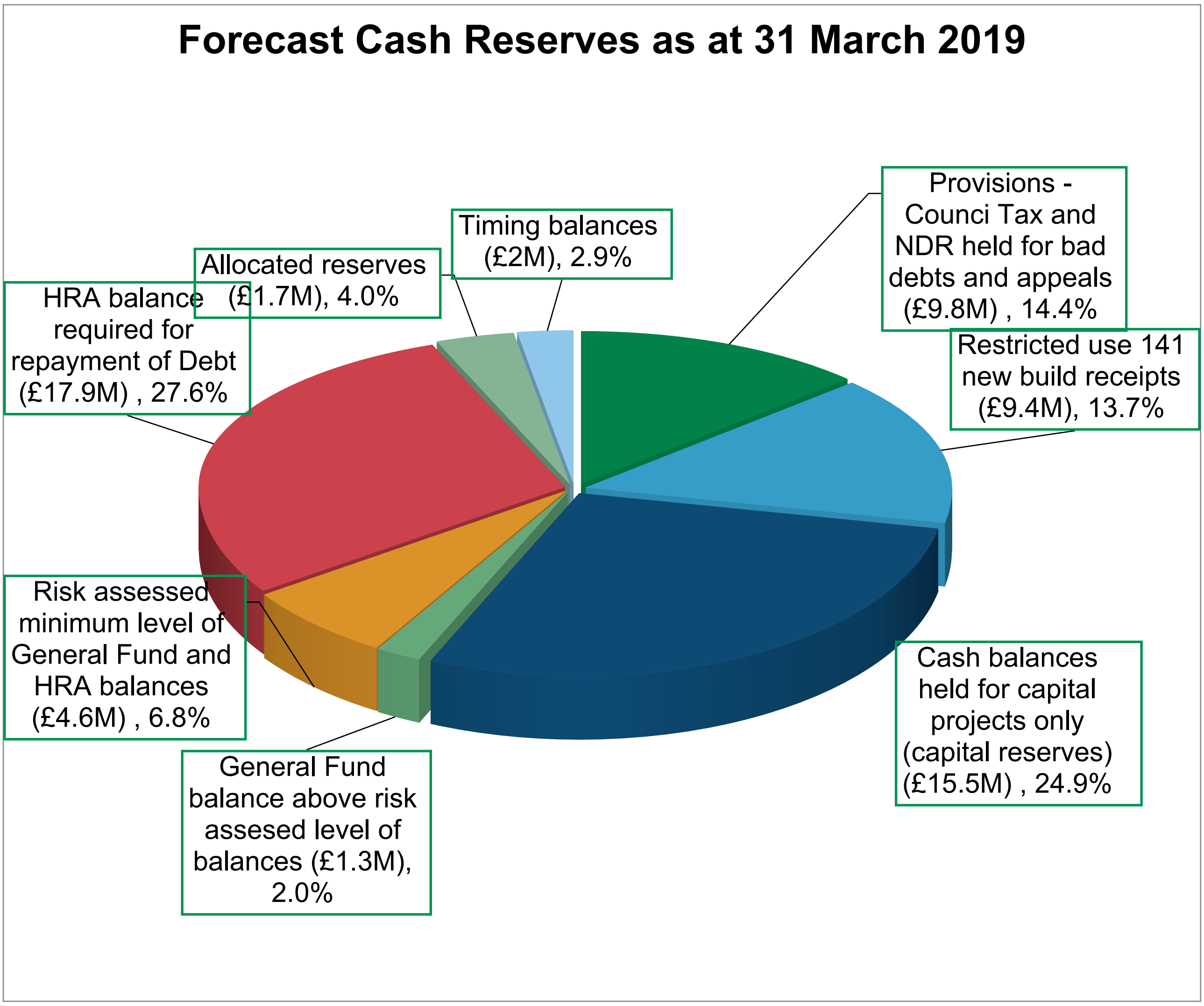



*Note: General Fund and HRA balances are net of internal borrowing at year end*

4.4.4 In addition to the balances projected to be held as at 31 March 2019 that will be used by 2021/22 there are other balances invested that cannot be used to run services. These may be balances related to restricted RTB receipts which in 2018/19 total £9.4Million. There are also balances relating to timing differences (from creditors and debtors) estimated at £2Million and balances held for future events such as business rate appeals yet to be realised and again these balances cannot be used to fund services.

4.4.5 Reserves and provisions forecast at 31 March 2019 to total £68.3Million, however the actual cash held is forecast to be £59.6Million, a difference of £8.7Million. This is because both the HRA and the General Fund have used investment balances totalling £6.7Million rather than take external borrowing as interest rates are so low, (see also para 4.7.4) plus timing differences of £2Million for creditor and debtors (para 4.4.4).

4.4.6 The majority of cash balances are held for the repayment of HRA debt (27.6%) and to fund the Council's capital programme (24.9%). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2019/20 capital strategy report. The forecast balances are summarised in the chart below.




*Note: balances gross of internal borrowing of £6.7Million*

4.4.7 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Following the treasury management review in 2017/18 the use of Ultra Short Dated Bonds (USDB) was approved (formerly known as enhanced cash funds) up to £3MIllion. Currently no investments have been made with USDB funds, partly due to above base rate investment returns are being offered for standard cash deposits and these are being achieved by the TM team.

4.4.8 During 2018/19 no investments have been made with the Debt Management office (DMO) and there has been one breach (overdraft limit 21 May 2018 - as reported to Members on 17th October 2018) in the TMS in 2018/19 as at the time of writing this report.

**4.5 Review of the Treasury Management Strategy and Proposed changes**

4.5.1 The 2018/19 TMS was revised to maintain the key principles of security and liquidity to accommodate the cash balances forecast to be held by the Council. In accordance with the prudential code the Council will continue to apply credit criteria in order to generate a list of highly credit worthy counterparties whilst maintaining diversification.

4.5.2 To comply with the new Code requirement a list of non treasury investments is included in Treasury Management Practices. The non- treasury investments have been defined as properties soley held for rental income either directly by Stevenage BC or held via a wholly owned company. Stevenage BC holds no other types of “non-treasury” investments.

## 4.6 Prudential Indicators

4.6.1 It is a requirement of the Local Government Act 2003 that Councils must ‘have regard to the Prudential Code and set prudential indicators to ensure capital investment plans are affordable, prudent and sustainable’. As mentioned in para 4.1.1 the Prudential Code has been revised and changes made to Prudential Indicators.

4.6.2 This Strategy’s Prudential Indicators are included in Appendix C and are based on the Draft Capital Strategy reported to the Executive in February 2019 and will be updated for the final Capital Strategy approved by Council on 27th February 2019.

4.6.3 **The Operational boundary** is the limit beyond which external debt is not normally expected to exceed and is most cases will be similar to the Council’s Capital Financing Requirement (CFR). Officers recommend that the operational borrowing limit is increased to:

- to accommodate uncertainty regarding the release of GD3 LEP monies and the cost of relocating the Bus Station, an essential requirement to progress the SG1 regeneration phase of the town centre
- recognise the finance lease (treated as borrowing -£8Million) that was entered into with Aviva for mixed use redevelopment at Queensway in the town centre. The annual finance lease payments will be used as a proxy for Minimum Revenue Provision (MRP) that would be made for this additional borrowing (see also Appendix B Minimum Revenue Provision Policy).
- To reflect the borrowing requirement in the capital strategy.

4.6.4 Members are asked to note that the finance lease valuation for Queensway is subject to external audit approval and as such may change, changing the operational boundary and authorised debt limits.

4.6.5 The **Authorised limit** for external debt has in turn been increased and represents a control on the maximum level of borrowing. This represents the legal limit to which the Council’s external debt cannot exceed.

4.6.6 Subject to confirmation of the valuation of the finance lease with external auditors, the Council is asked to approve the following authorised limit.

| **Authorised Limit for external debt** | **2018/19** | **2019/20** | **2020/21** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Borrowing - General Fund | 25,016 | 43,341 | 44,899 |
| Borrowing - HRA | 210,973 | 235,729 | 239,532 |
| **Total** | **235,988** | **279,070** | **284,431** |

**4.7 The Council's Borrowing Position**

4.7.1 The Council had external debt of £205.614Million as at 31 December 2018 is broken down as follows:

| **Purpose of Loan** | **PWLB Loan £'000** |
|---|---|
| | |
| **General Fund Regeneration Assets** | **2,940** |
| **HRA** | |
| Decent Homes | 7,763 |
| Self Financing | 194,911 |
| **Total HRA Loans** | **202,674** |
| **Total Debt at 31st December 2018** | **205,614** |

4.7.2 In 2018/19 a scheduled loan repayment of £1.241 million for the HRA was made. The HRA Business plan identified new borrowing of £3.5million due to be taken in 2017/18 but deferred to 2018/19. To date this borrowing has not been taken, the timing being dependent on cash balances held and forecast borrowing rates.

4.7.3 In 2018/19 there were General Fund loan repayments of £131,579 in August 2018 and February 2019. In addition approved prudential borrowing for the investment property portfolio and garage strategy is due to be taken, the timing of which is dependent on actual spend.

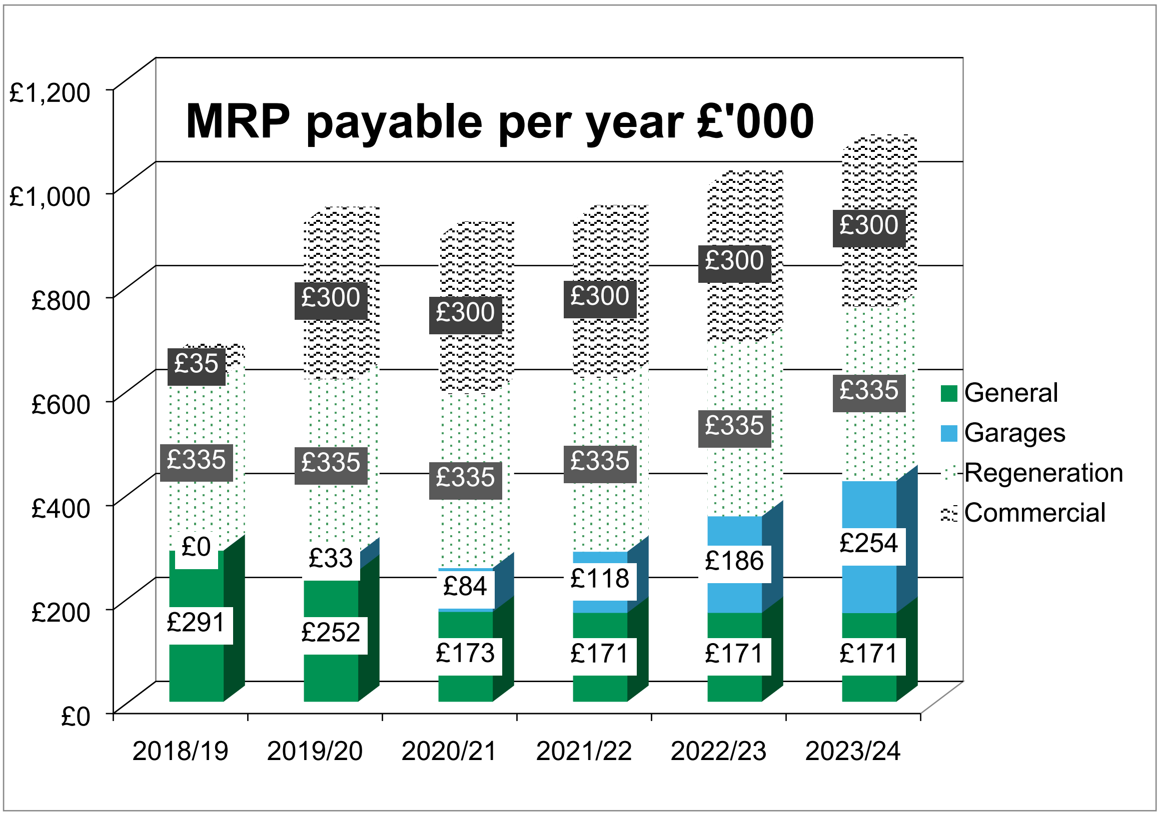
4.7.4 Cash and investment balances have been used in preference to external borrowing as the costs of internal debt (investment interest foregone at 0.9%) is significantly lower than external borrowing (2.7% based on 25 year loan). It is the view of the Chief Financial Officer that this approach will continue to be considered while interest rates remain low.

**4.8 Minimum Revenue Provision**

4.8.1 Where capital expenditure has been funded from borrowing, whether this be actual external borrowing or internal borrowing through the use of cash balances the council is required to set aside a Minimum Revenue Provision

(MRP). This amount is calculated based on the approved MRP policy (appendix B) based on the life of the asset.

4.8.2 Borrowing decisions and subsequent MRP payments impact on the affordability of capital schemes and subsequent revision to the current MRP policy may need to be approved by Council at a later date in 2019/20 to recognise the longer life of regeneration schemes. Current projections of MRP payments based on the existing policy are detailed in the following chart.




4.8.3 The internal borrowing approach recommended by the Chief Finance Officer and the subsequent MRP payments the General Fund needs to make has reduced the amount that the General Fund needs to borrow (on capital schemes 2011/12-2014/15) by £2.9Million of the total General Fund capital funded by borrowing as at 31 March 2019.

**4.9 Future borrowing requirements**

4.9.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by taking loans out with PWLB. Instead the Council's reserves, balances and cash flow have been used. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.9.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Assistant Director

(Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

4.9.3 It is the Council's intention not to borrow in advance of need. However, should this happen as part of the optimising treasury management position of the Council and minimising borrowing risks, the transaction will be accounted for in accordance with proper practices.

4.9.4 The Council's treasury advisors now forecast the Bank of England base rate to increase to 1.0% in June 2019. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty over Brexit and rates are monitored regularly.

**Link Asset Services Interest Rate View**

| | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate View | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 1.75% | 2.00% |
| 3 Month LIBID | 0.80% | 0.90% | 1.00% | 1.10% | 1.20% | 1.30% | 1.40% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% |
| 6 Month LIBID | 0.90% | 1.00% | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% |
| 12 Month LIBID | 1.10% | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.00% | 2.10% | 2.20% | 2.20% | 2.30% | 2.30% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.80% |
| 10yr PWLB Rate | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% |
| 25yr PWLB Rate | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| 50yr PWLB Rate | 2.70% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |

*Source: Link Asset Services 4 December 2018*

4.9.5 The Treasury's Certainty Rate for borrowing remains available and enables the Council to take PWLB loans at 20 basis points (0.2%) below the standard PWLB rate. The rates shown in the table above do not include that adjustment. There have been no further updates to the government's proposal to abolish the PWLB.

## 4.10 Investments

4.10.1 The Council complies fully with CIPFA Treasury Management Code 2017. The Council also complies with guidance on self-financing and the investment guidance issued by Ministry of Housing, Communities and Local Government (MHCLG).

4.10.2 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid year review of the TMS will be reported in 2019/20

4.10.3 The 2019/20 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council's treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.10.4 While Link Asset Services may advise the Council, the responsibility for treasury management decisions remains with the Council at all times and officers do not place undue reliance on the external service advice.

4.10.5 The TM limits for 2019/20 (Appendix D) have been reviewed and no changes to these limits are being proposed.

4.10.6 The latest list of “Approved Countries for Investment” is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA- . The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.11 **Non Treasury Investments**

4.11.1 The update to the Prudential Code introduced the requirement for local authorities to produce a capital strategy to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and considers prudence, sustainability and affordability. As mentioned in paragraph 3.2.3 the definition of investments has been widened to include non- treasury investments. The capital strategy 2018/19-2022/23 explains further the non-treasury investments that the Council has undertaken.

4.12 **Other Treasury issues**

4.12.1 **HRA Debt Cap**: In October 2018, Prime Minister Theresa May announced a policy change of the abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29 October 2018. The HRA’s operational debt limit will be increased pending the outcome of the action plan contained in the HRA Budget report i.e. the HRA business plan review and the option between taking further borrowing in lieu of revenue contribution to finance the capital programme.

4.12.2 **Brexit** - **UK Sovereign rating and investment criteria:** If there were to be a disorderly Brexit, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA. The Council’s investment only uses countries with a rating of AA- or above. The UK is exempt from the sovereign rating criteria as recommended by Link so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council’s ability to invest with UK institutions.

4.12.3 **Queensway Properties LLP** -In December 2018 the Council entered into a 37 year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. The regeneration scheme includes the provision of new housing, recreation facilities, and enhancement of the commercial shop units and offices. Following legal advice, a separate legal entity – Queensway Properties LLP, was incorporated to manage the rental streams and costs associated with the scheme. The Council’s treasury management team has offered its services to the LLP to manage and invest its surplus cash flows through a service level agreement. These investments and cash flows will be kept separate from the Council's and will be invested in accordance with Queensway Properties LLP treasury management strategy. As the LLP does not have the expertise or treasury management experience it will be classed as a retail client under MiFIDII regulations and so will have access to a narrower band of investments.

## 5 IMPLICATIONS

### 5.1 Financial Implications

5.1.1 This report is if a financial nature and outlines the Prudential Code indicators and the principles under which the treasury management functions are managed.

### 5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy is intended to ensure that the Council complies with relevant legislation.

### 5.3 Risk Implications

5.3.1 The current policy of not borrowing externally only remains financially beneficial while prevailing differentials between investment income rates and borrowing rates remain, and balances remain buoyant. When this changes, the Council may need to borrow at a higher rate, leading to a significant additional revenue cost in year.

5.3.2 There remains uncertainty on the impact of exiting the EU on UK economy and borrowing rates. Officers monitor interest rate forecasts to inform he timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designED to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

### 5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues (4.12.6).

**Background documents**

BD1 Annual Treasury management Review of 2017/18

BD2 2018/19 Mid Year Treasury Management Review

BD3 Draft Capital Strategy 2018/20 – 2022/23 (Executive 23 January 2019)

BD4 Potential Impact of the UK's withdrawal From the European Union (Executive 23 January 2019)

Appendices

A Treasury Management Strategy

B Minimum Revenue Provision Policy

C Prudential Indicators

D Specified and Non-Specified Investment Criteria

E Approved Countries for investment

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**Appendix A Treasury Management Strategy 2019/20.**

**Treasury Management Policy Statement**

1.1 The Council defines its treasury management activities as: "*The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*".

1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 This Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2017. This requires the Council to approve the Treasury Management Strategy annually and to produce a mid-year report. In addition, Members in both Executive and Scrutiny functions receive monitoring reports and regular reviews. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.5 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy to set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

## 2. Annual Investment Strategy

2.1 The Council is required to prepare an Annual Investment Strategy. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

2.2 The guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix D under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

The Council has determined that it will limit the maximum total exposure to non-specified investments as detailed in Appendix D.

e. **Lending limits and Transaction Limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix D and will consider investments longer than 365 days

f. This authority has engaged **external consultants**, Link Asset Services, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

g. All investments will be denominated in **sterling**.

h. The Council only invests in counterparties with a high credit quality in the UK or other countries meeting minimum AA- sovereign rating. The Council understands that changes have taken place to the ratings agencies and that their new methodologies mean that sovereign ratings are now of lesser importance in the assessment process. However, the Council continues to specify a minimum sovereign rating as the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution (see Appendix E).

i. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

2.3 The borrowing of monies purely to invest or on-lend in order to make a return is unlawful and this Council will not engage in such activities.

**3 Creditworthiness policy**

3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Based on this this main principle, the Council will ensure that:

- It maintains a policy covering the categories of financial instruments it will invest in, maximum investment duration, criteria for choosing counterparties with adequate security, and monitoring their security.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential indicators of the maximum principal sums invested in excess of 364 days.

3.2 The Assistant Director (Finance and Estates) will maintain a counterparty list in compliance with the criteria in the Strategy for Specified and Non-Specified Investment and will revise the criteria and submit them to Council for approval as necessary.

3.3 In determining the credit quality, the Council uses the Fitch credit ratings, together with Moody and Standard & Poor's equivalent where rated. Not all counterparties are rated by all three agencies and the Council will use available ratings.

3.4 The Council also applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Link Asset Services's modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

3.6 Credit ratings will be monitored whenever an investment is to be made, using the most recent information. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

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

3.8 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data including information on government support for banks and the credit ratings of that government support.

3.9 The Council receives updates from Link on future changes to Money Market Funds (MMF) that might affect the liquidity or risk of the fund. The Council is likely to change its approach to the use of MMF should liquidity or risk be adversely affected.

3.10 The Municipal Bond Agency is currently in the process of being set up and it is likely to be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loans Board (PWLB). The Council intends to make use of this new source of borrowing as and when appropriate.

**3.11 In-house funds.** Investments will be made with reference to the core balance and cash flow requirements, anticipated capital financing requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

## 4 Country limits

4.1 The Council has determined that it will only use approved counterparties from UK or selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This is part of the criteria used to produce the Council's Counterparty List.

## 5 Current Investments and Interest Rate Forecast

5.1 At the 31 December 2018 the Council had £66.18Million on deposit with various the institutions.

5.2 **Interest Rate Forecast** - The Bank of England base rate remains at 0.75% as at 31 December 2018. Link now forecast that Bank Rate will increase gradually over the next few years to reach 2.0% by 1st quarter 2022.

Bank Rate forecasts (source: Link 4th December 2018) for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

**5.3 Investment returns expectations.**

The Council has budgeted for investment returns of 0.55% in 2018/19 and is budgeting for returns of 0.7 % in 2019/220. For comparison Link's suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| | **As at 4-12-18** |
|---|---|
| 2018/19 | 0.75% |
| 2019/20 | 1.00% |
| 2020/21 | 1.50% |
| 2021/22 | 1.75% |
| 2022/23 | 1.75% |
| 2023/24 | 2.00% |
| Later years | 2.50% |

And are based on the following assumptions:

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

## 6 Borrowing Strategy and Policy on Borrowing in Advance of Need

6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.3 The Operational Boundary and Authorised Borrowing Limits must be approved as part of the Prudential Code Indicators before the start of each financial year. The revised 2018/19 limits and proposed limits for 2019/20 are:-

| | 2018/19 Revised | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Operational Boundary | 237,080 | 243,776 |
| Authorised Limit | 246,470 | 253,166 |

6.2 Based on the capital programme 2019/20 (February 2019 Update) resourcing projections, the Council has the following borrowing requirements in 2019/20 are projected:

- General Fund £7,636,700. (£2,036,700 in relation to the10 year plan for the garages estates approved by Council on 20 July 2016. £5,600,000 in relation to the Investment Property strategy approved by Council on 17th May 2017.)
- General Fund £XXXX recognising the finance lease within the Queensway Regeneration project (Approved XXXX)
- HRA £Nil.

6.3 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

6.4 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

6.5 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members

## 7 End of year investment report

7.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Outturn Report.

## 8 Policy on the use of external service providers

8.1 In July 2016, the Council tendered for its treasury management advisors. As a result of which, Link Asset Services (formerly known as Capita Asset Services) was reappointed on a five year contract. The new contract commenced on 26 October 2016.

8.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

8.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

**9 Scheme of Delegation and Role of Section 151 officer**

9.1 **The Council** has the role of:

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

9.2 **The Audit Committee** has the role of reviewing the policy and procedures and making recommendations to Council.

9.3 **The Section 151 Officer** has the role of:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-

financial investments and is in accordance with the risk appetite of the authority

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (covered in Annual Capital Strategy Report).

9.4 Reporting arrangement to the Council and the Audit Committee is as below:

| Area of Responsibility | Council Committee | Frequency |
|---|---|---|
| Treasury Management Policy Statement (revised) | Council | Initial adoption in 2010 |
| Treasury Management Strategy / Annual Investment Strategy / Minimum Revenue Provision (MRP) policy | Council | Annually before the start of the year |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report | Council | Annually before the end of the year |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times | Council | As required. |
| Annual Treasury Outturn Report | Council | Annually by 30th November |
| Scrutiny of Treasury Management Strategy | Audit Committee | Annually before the start of the year |
| Scrutiny of Treasury Management performance | Audit Committee | Quarterly (General Fund updates) |

**Appendix B** (January 2019 Update)

**Minimum Revenue Provision Policy**

## Minimum Revenue Provision Policy Statement 2019/20

*Note: It may be necessary to take a revised strategy and/or MRP policy to Council at a later date subject to progression of the wholly owned housing company and regeneration schemes to reflect the longer life of regeneration assets .*

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it will be necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision in 2019/20 for the unfunded element of 2013/14 and 2014/15 expenditure. **The preferred method for existing underlying borrowing is Option 3 (Asset Life Method) whereby the MRP will be spread over the useful life of the asset. Useful life is dependant on the type of asset and ranges from 7 years (ICT equipment) and 50 years (Investment properties).**

The Council has approved a **Property Investment** Strategy – an investment of £15Million in property funded from prudential borrowing. The MRP calculation will be calculated under **Option 3 (Asset Life Method) and the annuity method** which links the MRP to the flow of benefits from the properties.

The forecast annual MRP for 2018/19 is £673,090 and for 2019/20 is £634,324 based on the Draft 2019 Capital Strategy Update having the need to borrow for the General Fund. In addition finance lease payments due as part of the Queensway regeneration project made in 2018/19 and 2019/20 will be applied as MRP.

**MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
MRP payments are required on regeneration assets and a decision was made to make a voluntary MRP payment in the year of acquisition for these assets (the Council's policy is to make a MRP payment the year after acquisition). Up until the 31 March 2019 the total VRP overpayments were £68,739.65. No MRP overpayments have been made.

| **Voluntary MRP made** | |
|---|---|
| 2012/13 | £46,929.65 |
| 2013/14 | nil |
| 2014/15 | £21,810.00 |
| 2015/16 | nil |
| 2016/17 | nil |
| 2017/18 | nil |
| 2018/19 | TBC |
| **cumulative total** | **£68,739.65** |

## Additional Information

**1. What is a Minimum Revenue Provision (MRP)?**
The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

**2. Statutory duty**
Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

**3. Government Guidance**
Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

The four recommended options are thus:

**Option 1: Regulatory Method**
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity).

This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

**Option 2: Capital Financing Requirement Method**
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

This is not applicable to the Council as it is for existing non supported debt

**Option 3: Asset Life Method.**
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -
Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
equal instalment method – equal annual instalments,
annuity method – annual payments gradually increase during the life of the asset.

This is the preferred method as it allows costs to be spread equally over the life of the asset.

**Option 4: Depreciation Method**
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

This method is not favoured by the Council as if the asset is subject to a downturn in value, then that amount would have to be written off in that year, in addition to the annual charge

**4. Date of implementation**
The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply

for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). The CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

| Treasury Management Prudential Indicators | Appendix C | | 2019/20 Treasury Management Strategy | | | | |
|---|---|---|---|---|---|---|---|

## Capital Expenditure (Based on Draft Capital Strategy: Jan 2019 )

| | 2018/19 Revised Mid Yr review 18-19 | 2018/19 Revised Draft Cap Jan 19 Exec | 2019/20 Updated Jan 19 Exec | 2020/21 Updated Jan 19 Exec | 2021/22 Updated Jan 19 Exec | 2022/23 Updated Jan 19 Exec | 2023/24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| General Fund | 32,007 | 15,573 | 32,188 | 8,936 | 7,130 | 4,706 | 28,621 |
| HRA | 26,128 | 23,528 | 47,792 | 35,676 | 35,479 | 29,129 | 28,006 |
| **Total** | **58,135** | **39,101** | **79,979** | **44,612** | **42,609** | **33,835** | **56,627** |

## Ratio of financing costs to net revenue stream:

| | 2018/19 Revised Mid Yr review 18-19 | 2018/19 Revised Draft Cap Jan 19 Exec | 2019/20 Updated Jan 19 Exec | 2020/21 Updated Jan 19 Exec | 2021/22 Updated Jan 19 Exec | 2022/23 Updated Jan 19 Exec | 2023/24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % |
| General Fund Capital Expenditure | 7.90% | 7.82% | 6.77% | 10.31% | 10.44% | 9.82% | 10.39% |
| HRA Capital Expenditure | 16.94% | 16.94% | 16.78% | 16.46% | 16.16% | 15.33% | 14.84% |

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

| | 2018/19 Revised Mid Yr review 18-19 | 2018/19 Revised Draft Cap Jan 19 Exec | 2019/20 Updated Jan 19 Exec | 2020/21 Updated Jan 19 Exec | 2021/22 Updated Jan 19 Exec | 2022/23 Updated Jan 19 Exec | 2023/24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Borrowing - General Fund | 40,666 | 25,016 | 43,341 | 44,899 | 45,727 | 46,554 | 45,680 |
| Borrowing - HRA | 217,685 | 210,973 | 235,729 | 239,532 | 244,628 | 244,628 | 244,628 |
| **Total** | **258,351** | **235,988** | **279,070** | **284,431** | **290,355** | **291,183** | **290,308** |

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. It may be subject to review pending external audit agreement of the valuation of the Queensway finance lease.

## Operational Boundary for external debt

| | 2018/19 Revised Mid Yr review 18-19 | 2018/19 Revised Draft Cap Jan 19 Exec | 2019/20 Updated Jan 19 Exec | 2020/21 Updated Jan 19 Exec | 2021/22 Updated Jan 19 Exec | 2022/23 Updated Jan 19 Exec | 2023/24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Borrowing - General Fund | 38,166 | 20,016 | 38,341 | 39,899 | 40,727 | 41,554 | 40,680 |
| Borrowing - HRA | 211,209 | 205,973 | 230,729 | 234,532 | 239,628 | 239,628 | 239,628 |
| **Total** | **249,375** | **225,988** | **269,070** | **274,431** | **280,355** | **281,183** | **280,308** |

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 £2.5m headroom in addition to our General Fund capital plans and £20m pending HRA business plan action plan.

## Gross & Net Debt

| | 31-Mar-19 Revised Mid Yr review 18-19 | 31-Mar-19 Revised Draft Cap Jan 19 Exec | 31-Mar-20 Updated Jan 19 Exec | 31-Mar-21 Updated Jan 19 Exec | 31-Mar-22 Updated Jan 19 Exec | 31-Mar-23 Updated Jan 19 Exec | 31-Mar-24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Gross External Debt - General Fund | 18,390 | 20,016 | 38,341 | 39,899 | 40,727 | 41,554 | 40,680 |
| Gross External Debt - HRA | 209,074 | 205,973 | 230,729 | 234,532 | 239,628 | 239,628 | 239,628 |
| **Gross External Debt** | **227,464** | **225,988** | **269,070** | **274,431** | **280,355** | **281,183** | **280,308** |
| Less Investments | (54,119) | (58,727) | (38,770) | (29,806) | (31,479) | (29,756) | (31,061) |
| **Net Borrowing** | **173,345** | **167,261** | **230,301** | **244,625** | **248,876** | **251,427** | **249,247** |

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.

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 (CFR)

| | 31-Mar-19 Revised Mid Yr review 18-19 | 31-Mar-19 Revised Draft Cap Jan 19 Exec | 31-Mar-20 Updated Jan 19 Exec | 31-Mar-21 Updated Jan 19 Exec | 31-Mar-22 Updated Jan 19 Exec | 31-Mar-23 Updated Jan 19 Exec | 31-Mar-24 Updated Jan 19 Exec |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital Financing Requirement GF | 29,835 | 17,516 | 35,841 | 37,399 | 38,227 | 39,054 | 38,180 |
| Capital Financing Requirement HRA | 211,857 | 205,973 | 210,729 | 214,532 | 219,628 | 219,628 | 219,628 |
| **Total Capital Financing Requirement** | **241,692** | **223,488** | **246,570** | **251,931** | **257,855** | **258,683** | **257,808** |

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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**Appendix D**
**Specified and Non-specified Investment Criteria**
**(including Treasury Limits and Procedures)**

Table 1

**Specified Investments** are sterling denominated with maturities up to maximum of one year and must meet the following minimum high credit quality criteria:

| Investment Counterparty | Investment Instrument | Minimum High Credit Quality Criteria | Investment Duration |
|---|---|---|---|
| Banks or Building Societies | Overnight Deposit | Fitch: Short Term F1 and Long Term A and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different OR Part-nationalised or Nationalised UK banking institutions (subject to regular reviews of government share percentage). | Maximum duration as per Treasury Advisor's (Link's) colour coded Credit List, and less than one year |
| | Notice Account | | |
| | Short Term Deposit | | |
| Debt Management Office or UK Local Authority | Any deposit | No limit. | |
| Money Market Funds | Instant Access | AAA rated | Instant Access |

Table 2

**Non-Specified Investment** are sterling denominated with a maturity longer than one year but no longer than five years, and must meet the following criteria:

| Investment Counterparty | Investment Instrument | Minimum High Credit Quality Criteria | Investment Duration |
|---|---|---|---|
| Banks or Building Societies | Any deposits with maturity up to a maximum of five years | Fitch: Short Term F1+ and Long Term AA- and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different | Maximum duration suggested by Treasury Advisor's (Link's) colour coded Credit List, and not in excess of five years |
| Debt Management Office or UK Local Authority | | No Limit. | |

Please Turn Over

Table 3 **Treasury Limits**

| Investment Instrument | Cash balances less than £30Million<br>Limits | Cash balances higher that £30Million<br>Limits |
|---|---|---|
| Variable Rate Investments (Excluding Enhanced Cash Funds) | Maximum holding £30M | Maximum holding 100% |
| Counterparty limits (to encompass all forms of investment) | Maximum £5M | Maximum £8M |
| Instant Access Or Overnight Deposit | Maximum holding 100% | |
| Fixed Rate less than 12 month maturity | Maximum holding 100% | |
| Fixed Rate more than 12 months to maturity (includes all types of Fixed Rate Investments i.e. Certificates of Deposits ) | Maximum £5M | Maximum £10M |
| Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund) | Maximum £5M per MMF | Maximum £8M per MMF |
| | No limit on total cash held | |
| Enhanced Cash Funds | Maximum £3M | |
| Certifcates of Deposits | Maximum £5M | |
| Property Funds | Maximum of £3M - No durational limit. Use would be subject to consultation and approval | |

| | Procedures of Applying the Criteria and Limits |
|---|---|
| | Before the Treasury Team makes an investment, the Team will follow the follow procedure to ensure full compliance with the Specified and Non-Specified Criteria and Treasury Limits: |
| 1 | Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link (formerly known as Capita), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them. |
| 2 | If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by Link (former known as Capita) in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override). |
| 3 | Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits. |

# APPENDIX E: Approved Countries (with Approved counterparties) for Investments (as at 4th December2018)

*Based on lowest available rating*

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A

AA

- Abu Dhabi (UAE)
- France
- Hong Kong

AA-

- Belgium
- Qatar

**The UK is exempt from the sovereign rating criteria as recommended by Capita**

**The above list includes the possible countries the Council may invest with. Not all of these countries are used or will be used in treasury management investments**

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# Stevenage Borough Council
# Audit Committee

## 4 February 2019

## Shared Internal Audit Service – Progress Report

## Recommendation

| |
|---|
| Members are recommended to:<br>a) Note the Internal Audit Progress Report<br>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 18 January 2019.
b) The findings for the period 1 April 2018 to 18 January 2019.
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 18 January 2019.

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 18 January 2019, 68% of the 2018/19 Audit Plan days have been delivered (calculation excludes contingency days that have not yet been allocated).

2.2 Final reports for the following audits and projects have been issued or completed since the last Audit Committee:

| **Audit Title** | **Date of Issue** | **Assurance Level** | **Number of Recommendations** |
|---|---|---|---|
| Cash and Banking | October 2018 | Good | None |
| GDPR – Post Implementation Review | November 2018 | Good | One Medium |
| Council Tax | November 2018 | Good | One Low/Advisory |
| Housing Benefits | January 2019 | Good | None |
| NDR | January 2019 | Good | None |

| | | | |
|---|---|---|---|
| Street Cleansing | January 2019 | Limited | Six Medium |
| Mobile Device Management and BYOD | January 2019 | Satisfactory | Two Medium, One Low/Advisory |
| Treasury Management | January 2019 | Good | None |

2.3 The table below also summarises the position with regard to 2018/19 projects as at 18 January 2019. Appendix A provides a status update on each individual project within the 2018/19 Internal Audit Plan. Details of start dates for the individual projects are also shown in Appendix C.

| Status | No. of Audits at this Stage | % of Total Audits |
|---|---|---|
| Final Report Issued | 13 | 39% |
| Draft Report Issued | 1 | 3% |
| In Fieldwork/Quality Review | 8 | 25% |
| In Planning/Terms of Reference Issued | 10 | 30% |
| Allocated | 1 | 3% |
| Cancelled | 0 | 0% |
| Total | 33 | 100% |

Proposed Audit Plan Amendments

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

Critical and High Priority Recommendations

2.5 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.

2.6 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations.

Performance Management

2.7 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.

2.8 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 18 January 2019 |
|---|---|---|---|
| **1. Planned Days** – percentage of actual billable days against planned chargeable days completed | 95% | 67% (233/347 days) | 68% (235/347 days) |
| **2. Planned Projects** – percentage of actual completed projects to draft report stage against planned completed projects | 95% | 55% (18/33 projects) | 42% (14/33 projects) |
| **3. Client Satisfaction** – percentage of client satisfaction questionnaires returned at 'satisfactory' level | 100% | 100% | 100% (7 received) Note (1) |
| **4. Number of Critical and High Priority Audit Recommendations agreed** | 95% | 95% | 100% (9 High agreed) |

Note (1) - 3 of those received in 2018/19 relate to 2017/18 projects.

## APPENDIX A - PROGRESS AGAINST THE 2018/19 AUDIT PLAN

**2018/19 SIAS Audit Plan**

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | LA | | | | |
| **Key Financial Systems – 75 days** | | | | | | | | | |
| Main Accounting System (General Ledger) | | | | | | 6 | Yes | 1 | ToR Issued |
| Debtors | | | | | | 10 | Yes | 0.5 | ToR Issued |
| Creditors | | | | | | 12 | Yes | 1.5 | ToR Issued |
| Treasury Management | Good | 0 | 0 | 0 | 0 | 6 | Yes | 6 | Final Report Issued |
| Payroll | | | | | | 12 | Yes | 2.5 | ToR Issued |
| Council Tax | Good | 0 | 0 | 0 | 1 | 6 | Yes | 6 | Final Report Issued |
| NDR | Good | 0 | 0 | 0 | 0 | 6 | Yes | 6 | Final Report Issued |
| Housing Benefits | Good | 0 | 0 | 0 | 0 | 6 | Yes | 6 | Final Report Issued |
| Cash and Banking | Good | 0 | 0 | 0 | 0 | 5 | Yes | 5 | Final Report Issued |
| Housing Rents | | | | | | 6 | Yes | 0.5 | ToR Issued |
| **Operational Audits – 124 days** | | | | | | | | | |
| Data Quality | Satisfactory | 0 | 0 | 1 | 2 | 15 | Yes | 15 | Final Report Issued |
| GDPR – Post Implementation Review | Good | 0 | 0 | 1 | 0 | 10 | Yes | 10 | Final Report Issued |
| Land Charges | | | | | | 7 | Yes | 3 | ToR Issued |
| Emergency Planning | Good | 0 | 0 | 0 | 0 | 10 | Yes | 10 | Final Report Issued |
| Street Cleansing | Limited | 0 | 0 | 6 | 0 | 15 | Yes | 15 | Final Report Issued |
| CCTV – joint review | Limited | 0 | 9 | 0 | 0 | 12 | Yes | 12 | Final Report Issued |
| Development Management | | | | | | 10 | Yes | 4 | In Fieldwork |
| Homelessness Reduction Act | | | | | | 10 | Yes | 0 | Allocated |
| Debt Recovery | | | | | | 12 | Yes | 10 | In Quality Review |
| Anti-Social Behaviour | | | | | | 10 | Yes | 3 | In Planning |
| Herts Home Improvement Agency | | | | | | 2 | Yes | 2 | In Quality Review |
| DFG Capital Grant Certification | N/A | 0 | 0 | 0 | 0 | 1 | Yes | 1 | Final Report Issued |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | LA | | | | |
| Digital – Connected to our Customers | | | | | | 10 | Yes | 6.5 | In Fieldwork |
| **Procurement, Contract Management and Project Management – 24 days** | | | | | | | | | |
| Refurbishment Contract | | | | | | 12 | Yes | 3 | In Fieldwork |
| Housing Development Schemes | | | | | | 12 | Yes | 12 | Draft Report Issued |
| **Risk Management and Governance – 10 days** | | | | | | | | | |
| Risk Management | | | | | | 5 | Yes | 1 | In Fieldwork |
| Corporate Governance | | | | | | 5 | Yes | 0.5 | ToR Issued |
| **IT Audits – 30 days** | | | | | | | | | |
| Cyber Security – (TSS Improvement Plan – Security) | | | | | | 6 | Yes | 1.5 | ToR Issued |
| Incident Management / Major Incident Review Follow-up (TSS Improvement Plan – Resilience) | | | | | | 6 | Yes | 1.5 | ToR Issued |
| Mobile Device Management and BYOD | Satisfactory | 0 | 0 | 2 | 1 | 6 | Yes | 6 | Final 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 | 0.5 | In Progress |
| **Ad Hoc Advice – 5 days** | | | | | | | | | |
| Ad Hoc Advice | | | | | | 5 | No | 4 | Through Year |
| **Follow-up Audits – 10 days** | | | | | | | | | |
| Repairs and Voids Service | | | | | | 10 | Yes | 9 | In Quality Review |
| **Completion of 17/18 Projects – 20 days** | | | | | | | | | |
| CSC Complaints Handling | Substantial | 0 | 0 | 1 | 1 | 10 | Yes | 10 | Final Report Issued |
| Other | | | | | | 10 | Yes | 10 | Final Reports Issued |
| **Contingency – 3 days** | | | | | | | | | |

## APPENDIX A - PROGRESS AGAINST THE 2018/19 AUDIT PLAN

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | LA | | | | |
| Contingency | | | | | | 3 | 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 | | 9.5 | Through Year |
| Client Liaison | | | | | | 8 | | 7 | Through Year |
| Liaison with External Audit | | | | | | 2 | | 1 | Through Year |
| Monitoring | | | | | | 10 | | 7 | Through Year |
| SIAS Development | | | | | | 5 | | 5 | Through Year |
| 2019/20 Audit Planning | | | | | | 5 | | 4 | Through Year |
| **SBC TOTAL** | | **0** | **9** | **11** | **5** | **350** | | **235** | |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| 1. | CCTV (joint review) 2018/19. | We recommend that the governance framework for the overall CCTV Partnership is reviewed and confirmed as being fit for purpose, or changed as necessary, and is clearly understood by all parties, including the respective roles and responsibilities of the relevant Members and Officers. | We will draft a governance framework for the overall CCTV arrangements to include:<br>- Governance for Hertfordshire CCTV Partnership<br>- Governance for Hertfordshire CCTV Partnership Ltd.<br>- Governance lines between the Partnership and the Company<br>- Member roles and responsibilities<br>-Officer roles and responsibilities<br>These will be consulted on and agreed by the CCTV Joint Executive and the Company Board of Directors. | CCTV Joint Executive and Company Board of Directors. | 1 December 2018.<br>Revised to 31 May 2019. | January 2019.<br>Recommended to the CCTV Joint Executive on 22 January 2019 that a detailed options paper will be put the CCTV Executive Group at its meeting on 10 April 2019. | Not yet implemented – continue to monitor. |
| 2. | CCTV (joint review) 2018/19. | We recommend that an appropriate new Partnership Agreement between the current four CCTV Partner Authorities is drawn up and executed. It should clearly include the | We will prepare an updated CCTV Partnership Agreement drafted through the CCTV Officer Management Board to be signed by all four Partner Authorities. | CCTV Officer Management Board. | 31 March 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| | | specific roles and responsibilities of the Partner Authorities. It should also clearly state the relationship the Partner Authorities have with Hertfordshire CCTV Partnership Ltd. and the function of that company in respect of the overall CCTV Partnership. | | | | | |
| 3. | CCTV (joint review) 2018/19. | We recommend that the current Shareholders' Agreement for the Company is reviewed to ascertain if it remains fit for purpose and, if so, that the terms are fully complied with. | The Company Directors' will consider this recommendation through their Shareholder Representatives in light of future considerations relating to the future of Hertfordshire CCTV Partnership Ltd. | Company Board of Directors. | 31 March 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |
| 4. | CCTV (joint review) 2018/19. | We recommend that appropriate revised / new Terms of Reference for the CCTV Joint Executive and the CCTV Officer Management Board are drawn up and formally agreed. | Terms of Reference will be updated for the CCTV Joint Executive and a Terms of Reference will be created for the CCTV Officer Management Board. | CCTV Joint Executive and CCTV Officer Management Board. | 31 March 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |
| 5. | CCTV (joint review) 2018/19. | We recommend that, once agreed, the | New Terms of Reference will be | Each of the four Partner | 31 July 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| | | revised/new Terms of Reference for the CCTV Joint Executive and the CCTV Officer Management Board are revised / added in the Constitutions for each of the four Partner Authorities, together with the updated Member/Officer representation for both groups. | submitted for formal incorporation into constitutional arrangements for the four Partner Authorities. | Authorities. | | | |
| 6. | CCTV (joint review) 2018/19. | We recommend that a new five year Business Plan for the overall CCTV Partnership is drawn up and agreed. As a minimum, the plan should be monitored on a monthly basis in terms of achievements against projections and it should be the subject of a full review and refresh annually to cover the next five years ahead on a rolling basis. Besides financial projections, it should include non-financial aims and targets that should be monitored, reviewed and refreshed on the same basis. | We will develop a new five year rolling Business Plan (with monthly monitoring and full annual reviews) for the overall Hertfordshire CCTV Partnership based on decisions about the future direction of Hertfordshire CCTV Partnership Ltd. | CCTV Joint Executive and Company Board of Directors. | 31 July 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| 7. | CCTV (joint review) 2018/19. | We recommend that the role and responsibilities of the SBC Group Accountant in respect of the overall CCTV Partnership are reviewed, evaluated and formerly confirmed. Consideration should be given to increased use of the external Accountants with regard to the accounting requirements of Hertfordshire CCTV Partnership Ltd. | The role of the SBC Group Accountant in relation to the overall Partnership will be clarified in the revised Partnership Agreement.<br>The Company Directors will consider the accountancy needs of the Company and source appropriately. | CCTV Officer Management Board, Company Board of Directors and SBC Assistant Director, Finance & Estates. | 31 July 2019. | January 2019.<br>The partners have agreed the role of the Stevenage BC accountant in relation to the CCTV Partnership and the company has agreed to source its accountancy support separately from this | Implemented. |
| 8. | CCTV (joint review) 2018/19. | We recommend that all reporting arrangements for the Partner Authorities are formally reassessed, agreed and documented to ensure there is complete clarity and transparency of expectations and understanding across all interested parties regarding the need, responsibility, frequency, timing, content, format and distribution of each report required. | Authority reporting arrangements to be included as part of a revised Partnership Agreement, Shareholder Agreement and Terms of Reference as necessary. | CCTV Joint Executive,<br>CCTV Officer Management Board and Company Board of Directors as appropriate. | 31 July 2019. | January 2019.<br>On track. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| 9. | CCTV (joint review) 2018/19. | We recommend that there is a review of how charges are being calculated and billed to the Partner Authorities, clarification of who is responsible for this and agreement of the timing. | A schedule of charges to be prepared for the Partnership. The schedule will identify recharges applied to the Partnership, including; staffing, overheads, IT, etc.<br>The schedule will also include recharges applied to Hertfordshire CCTV Partnership Ltd.<br>A quarterly finance report to be prepared for the CCTV Officer Management Board, to include year-end financial projections for the Partnership. | SBC Assistant Director, Finance & Estates. | 1 November 2018. | <u>January 2019.</u><br>Stevenage BC has drawn up a recharge schedule relating to the costs attributed to the Partnership; this has been shared with partner authorities. In addition, quarterly in-year financial forecasts are now being produced by Stevenage BC for the Partnership and shared with the partner authorities. | Implemented. |
| 10. | Cyber Security 2017/18 | The Council must define its position regarding its ability to identify and manage devices that are connecting to its IT network.<br>A solution must be able to manage devices that have physically connected to the Councils' IT networks.<br>Devices that have connected to the network should be | This will be resolved with the correct solution not only for devices but also for ports on all devices that need to be restricted. | Strategic ICT Partnership Manager. | 31 March 2019. | <u>January 2019.</u><br>This is a new addition and the management response opposite is therefore the latest comment. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| | | reviewed and, where they are found to have not been authorised, they should be removed. The solution should include the use of personal devices to connect to the IT network.<br>Furthermore, management should put arrangements in place to monitor network access on a regular basis. | | | | | |
| 11. | Cyber Security 2017/18 | Management should perform a full review of the Councils' perimeter firewall rules and, where necessary, remove inactive or unnecessary rules unless explicitly required. The 'Any' rules should be replaced with port object groups that contain an explicit set of ports as required for the rule.<br>Management should also ensure that all users that have access and can make changes to any of the Councils' external firewall rules have individual accounts | The majority of the council's firewalls need replacing and part of that work will require the correct configuration and management. ICT Partnership Manager has been tasked to restructure the ICT department and as part of that to have dedicated security and network staff to resolve and maintain control of these areas. | Strategic ICT Partnership Manager. | 31 March 2019. | <u>January 2019.</u><br>This is a new addition and the management response opposite is therefore the latest comment. | Not yet implemented – continue to monitor. |

| No. | Report Title | Recommendation | Management Response | Responsible Officer | Implementation Date | History of Management Comments | SIAS Comment (18 January2019) |
|---|---|---|---|---|---|---|---|
| | | and should put arrangements in place for monitoring all configuration changes.<br>Furthermore, management should establish a record of how all firewalls, both internal and external, have been configured and should review the rules for appropriateness on a routine basis. | | | | | |
| 12. | Cyber Security 2017/18 | Management must complete the action on the IT Improvement Plan to migrate all IT services and systems onto servers that are running supported operating systems.<br>Furthermore, the Councils' patch management procedures should be approved and made available to all relevant members of staff. | This is in the current work schedule which means that all servers running supported OS will be removed from the network by the end of September. | Strategic ICT Partnership Manager. | 30 September 2018. | January 2019.<br>The council is now running supporting operating systems and software. IT also has ongoing plans to move off operating systems which will be going out of support in coming years.<br>IT has automated patch management where possible, and where not these are manually applied by ICT staff. In general all staff need to know is when they need to reboot devices, so outside of ICT there is no requirement for staff to see or approve patch management procedures. | Partially implemented – continue to monitor. |

| Apr | May | Jun | July | Aug | Sept |
|---|---|---|---|---|---|
| 2017/18 Audit – Other **(Final/Draft Reports Issued)** | Mobile Device Management and BYOD **(Final Issued)** | Emergency Planning **(Final Report Issued)** | Repairs and Voids Service (Follow up) **(In QR)** | Debt Recovery **(In QR)** | DFG Capital Grant Certification **(Final Report Issued)** |
| CSC Complaints Handling **(Final Report Issued)** | Data Quality **(Final Report Issued)** | | Street Cleansing **(Final Report Issued)** | GDPR – Post Implementation Review **(Final Report Issued)** | Herts Home Improvement Agency (b/f from Feb) **(In QR)** |
| CCTV – joint internal audit **(Final Report Issued)** | | | | | |
| **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** |
| Cash and Banking (b/f from Nov) **(Final Report Issued)** | NDR **(Final report Issued)** | Housing Rents **(ToR Issued)** | Debtors **(ToR Issued)** | Corporate Governance **(ToR Issued)** | Risk Management **(In Fieldwork)** |
| Council Tax **(Final Report Issued)** | Treasury Management **(Final Report Issued)** | Payroll **(ToR Issued)** | Creditors **(ToR Issued)** | Cyber Security **(ToR Issued)** | Development Mgmt. (Deferred from Sept) **(ToR Issued)** |
| Housing Benefits **(Final Report Issued)** | Main Accounting System (Deferred from October) **(ToR Issued)** | Digital - Connected to our Customers (Deferred from June) **(ToR Issued)** | Incident Management – Major Incident Review / IT Disaster Recovery Follow-up **(ToR Issued)** | Homelessness Reduction Act **(Allocated)** | |
| Housing Development Schemes **(Draft Report Issued)** | TSS Improvement Plan Governance (b/f from Jan) **(In Fieldwork)** | Refurbishment Contract **(In Fieldwork)** | Anti-Social Behaviour (Deferred from May) **(In Planning)** | Land Charges (Deferred from August) **(ToR Issued)** | |

| 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. |



| 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. |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

# Agenda Item 10

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