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AUDIT COMMITTEE

Date: Tuesday, 10 September 2019
Time: 6.00pm,
Location: Shimkent Room, Daneshill House, Danestrete
Contact: Ian Gourlay
committees@stevenage.gov.uk

Members: Councillors: M McKay (Chair), J Gardner, (Vice-Chair), S Barr, S Booth, L Chester, D Cullen, L Kelly and G Lawrence

Independent Member: G Gibbs

AGENDA

PART 1

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 11 JUNE 2019

To approve as a correct record the minutes of the meeting of the Audit Committee held on 11 June 2019.

Pages 3 – 8

3. ANNUAL TREASURY MANAGEMENT REVIEW 2018/19 INCLUDING PRUDENTIAL CODE

To review the operation of the 2018/19 Treasury Management Strategy.

Pages 9 – 32

4. INTERNAL AUDIT PLAN 2019/20 - PROGRESS REPORT

To consider a progress report on the SIAS 2019/20 Internal Audit Plan.

Pages 33 – 52

5. SIAS ANNUAL REPORT 2018/19

To note the Shared Internal Audit (SIAS) Annual Report for 2018/19.

Pages 53 – 66

6. URGENT PART 1 BUSINESS

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

7. 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.

8. HERTFORDSHIRE HOME IMPROVEMENT AGENCY AUDIT

To consider the Hertfordshire Home Improvement Agency audit.

9. STRATEGIC RISK REGISTER

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

10. URGENT PART II BUSINESS

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

Agenda Published 2 September 2019

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Tuesday, 11 June 2019
Time: 6.00pm
Place: Shimkent Room, Daneshill House, Danestrete

Present:	Councillors: Maureen McKay (Chair), John Gardner (Vice-Chair), Sandra Barr, Stephen Booth, Laurie Chester, David Cullen, Lizzy Kelly and Graham Lawrence Independent Member: Mr Geoff Gibbs
Also present:	Neil Harris (Ernst and Young) Nick Jennings (Shared Anti-Fraud Services) Simon Martin (Shared Internal Audit Services)
Start / End Time:	Start Time: 6.00pm End Time: 7.51pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies for absence.

There were no declarations on interest.

2 ELECTION OF VICE-CHAIR

It was **RESOLVED** that Councillor John Gardner be elected as Vice-Chair of the Committee for the 2019/20 Municipal Year.

3 MINUTES - 19 MARCH 2019

It was **RESOLVED** that the Minutes of the Audit Committee meeting held on 19 March 2019 be approved as a correct record and signed by the Chair.

4 TERMS OF REFERENCE

It was **RESOLVED** that the Terms of Reference for the Committee, as approved at the Annual Council Meeting held on 22 May 2019, be noted.

5 ACCOUNTS AND AUDIT TIMELINE 2018/19

The Committee considered a report submitted by Ernst and Young regarding the Accounts and Audit timeline for 2018/19.

Neil Harris, Ernst and Young, advised that they were experiencing staff turnover and challenges in recruiting new staff, which had affected the audit timetable. To ensure that the Council received the best quality audit, it was proposed that the audit would now take place during August and September 2019.

The Committee was informed that Ernst and Young had explained their decision to Public Sector Audit Appointments, and had provided them with a reassurance that they would make every effort to minimise inconvenience to clients and to complete rescheduled audits as soon as possible after 31 July 2019.

Neil Harris commented that, whilst Ernst and Young always strived to provide excellent client service, his first priority must be to safeguard the quality of the audits provided in order to avoid putting professional standards at risk. He apologised for the inconvenience that the rescheduling of the audit may cause the Council.

In debating the fact that Ernst and Young had revised the timetable for the 2018/19 Accounts and Audit, with completion during September 2019 rather than by 31 July 2019, the Associate Partner (Ernst and Young) and the Assistant Director (Finance and Estates) replied to a series of Members' questions and comments as follows:

- Ernst and Young would be "front loading" as much audit work as possible during end of July/early August, so as not to run too close to the September 2019 Committee deadline for completion of the work;
- The Council would still be able to publish its Accounts by the end of July 2019 (albeit with no audit opinion);
- There was a strategic risk to the Council, although experience had shown that audits generally raised valuation issues rather than income/expenditure issues; there was potentially more risk in terms of SBC staffing/resourcing resilience in support of the audit;
- The Ernst and Young audit team was now in place to deliver the audit by the September 2019 deadline, and a Project Plan was to be submitted to the Assistant Director (Finance and Estates); and
- There was a discussion on the sustainability and future challenges facing public sector audit; the Assistant Director (Finance and Estates) would reflect the Council's views in her representation to the Society of Local Authority Treasurers, and it was confirmed that Ernst and Young were engaging proactively in the future reviews into the audit market.

It was **RESOLVED** that the revised Accounts and Audit Timetable for 2018/19, as set out in the letter from Ernst and Young dated 26 April 2019, be noted.

6 ANNUAL AUDIT FEE LETTER 2019/20

The Committee received the Annual Audit Fee Letter for 2019/20.

Neil Harris, Ernst and Young, advised that Public Sector Audit Appointments (PSAA) had set the indicative audit fees for 2019/20. The scale fee would be £49,283 (unchanged from 2018/19), to be billed in four quarterly instalments.

In response to a Member's question regarding potential additional audit fees for work associated with items such as group accounts or a review of the Queensway Scheme, the Assistant Director (Finance and Estates) advised that she would be writing to Public Sector Audit Appointments (PSAA) seeking clarification of precisely what audit work was included in the Annual Audit Fee.

For the specific benefit of new Members of the Committee, the Assistant Director (Finance and Estates) undertook to provide them with a glossary of relevant acronyms and their definitions.

It was **RESOLVED** that the Annual Audit Fee Letter for 2019/20 from Ernst and Young dated 29 April 2019 be noted.

7 2018/19 ANNUAL FRAUD REPORT AND PROGRESS WITH DELIVERY OF 2019/20 ANTI-FRAUD PLAN

The Committee considered the Shared Anti-Fraud Service (SAFS) 2018/19 Annual Fraud report and progress with delivery of the 2019/20 Anti-Fraud Plan.

The Shared Anti-Fraud Manager tabled and explained a set of comparison statistics for various activities carried out by SAFS since 2015/16.

The Shared Anti-Fraud Manager stated that, in 2018/19, SAFS had deployed 1 member of staff to work exclusively for the Council, providing management and direction for the Council's own Tenancy Fraud Investigator. These officers were supported by the SAFS Intelligence Team.

The Shared Anti-Fraud Manager referred to the SAFS Key Performance Indicators for 2018/19 set out in the report and commented that he was content with performance against these indicators. During 2018/19 SAFS had received 162 allegations of fraud, primarily related to Housing Benefits and Council Tax related cases.

In terms of progress with the 2019/20 Anti-Fraud Action Plan, the Committee was informed that 66 live cases were carried forward from 2018/19. Attention was drawn to data required to be published as part of the Ministry of Housing, Communities and Local Government's Transparency Code, as set out in Paragraph 4.3 of the report.

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

- In relation to Key Performance Indicator 2 (Identified value of fraud), this target was based on the history and experience of previous years, together with comparative information with work carried out for other Councils in the partnership;
- The management information for 2019/20 was not as detailed as would normally be the case, primarily due to a change in software supplier. However, this situation would be resolved by the end of June 2019, and so the next SAFS progress report would provide the level of detail required;
- Publicity on successful prosecutions was provided to the local Press and published on the Council's website. The SAFS Manager undertook to include details of how many prosecutions were reported in the local Press as part of his next and future progress reports.

It was **RESOLVED:**

1. That the activity undertaken by the Shared Anti-Fraud Service to deliver the 2018/19 Anti-Fraud Plan for the Council, as set out in the report, be noted.

2. That the other anti-fraud activity undertaken to protect the Council, as set out in the report, be noted.

3. That the progress of the Shared Anti-Fraud Service on delivering the 2019/20 Anti-Fraud Plan, as set out in the report, be noted.

8 AUDIT PLAN 2019/20 - PROGRESS REPORT

The Committee considered a progress report on the Shared Internal Audit Service (SIAS) Audit Plan 2019/20 for the period to 17 May 2019.

The SIAS Client Audit Manager referred to the summarised position of the 2019/20 audits, as set out in Paragraph 2.3 of the report.

In terms of the High Priority Recommendations, the SIAS Client Audit Manager that feedback on the CCTV recommendations would be provided at the next Committee meeting; the Cyber Security recommendations were being worked on, with a view to plans being in place in the near future; and new recommendations had been added in relation to Community Safety, TSS Improvement Plan and ICT Incident Management.

It was **RESOLVED**:

1. That the Internal Audit progress report be noted.

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

9 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT 2018/19

The Committee considered a report detailing the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of the Council's control environment; self-assessment against the Public Sector Internal Audit Standards (PSIAS); performance against delivering the Council's Audit Plan; and the Audit Charter 2019/20.

In terms of the overall opinion for 2018/19, the SIAS Client Manager advised that Good Assurance had been achieved for the Council's Financial Systems and that Satisfactory Assurance had been achieved for the Council's Non-Financial Systems. He added that the SIAS Head of Assurance had confirmed that no matters had threatened SIAS's independence during the year, and SIAS had not been subject to any inappropriate scope or resource limitations.

The SIAS Client Audit Manager referred to Section 3 of the report, which provided an overview of Internal Audit activity at the Council in 2018/19, and Section 4 which outlined the performance of SIAS in 2018/19. It was noted that the 2019/20 Audit Charter, attached as Appendix D to the report, was unchanged from the 2018/19 version.

The Assistant Director (Finance and Estates) confirmed that the scope and resources for internal audit were not subject to any inappropriate limitations in 2018/19.

It was **RESOLVED:**

1. That the Annual Assurance Statement and Internal Audit Report be noted.

2. That the results of the self-assessment required by the Public Sector Internal Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) be noted.

3. That the SIAS Audit Charter 2019/20 be accepted.

4. That management assurance be given that the scope and resources for internal audit were not subject to inappropriate limitations in 2018/19.

10 ANNUAL GOVERNANCE STATEMENT 2018/19

The Committee considered a report regarding the content of the Council's Annual Governance Statement (AGS), following the review of the effectiveness of the Council's system of internal control and governance arrangements.

The Committee noted progress against the 2018/19 AGS, as well as planned improvement activity for 2019/20. The Framework for compiling the AGS was set out in Appendix 2 to the report; evidences and processes in Appendix 3; and Business Unit level Assurance Statements in Appendix 4. The Corporate Governance Group met quarterly to monitor progress against the actions contained in the AGS.

In reply to a Members' comment, Officers confirmed that the questions posed to Assistant Directors as part of the process in developing the Annual Governance Statement (in accordance with the CIPFA/SOLACE Framework) were challenging and robust.

It was **RESOLVED** that the Council's Annual Governance Statement 2018/19, as attached at Appendix One to the report, be recommended for approval by the Statement of Accounts Committee.

11 URGENT PART 1 BUSINESS

None.

12 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.

13 STRATEGIC RISK REGISTER

The Committee considered a Part II report in respect of the latest Strategic Risk Register for the Council and developments on risk management issues.

The Interim Strategic Director answered a number Members' questions regarding ICT issues.

It was **RESOLVED:**

1. That the latest Strategic Risk Register (set out in Appendices A1 – A3 to the report) be noted.

2. That developments on risk management issues be noted.

14 URGENT PART II BUSINESS

None.

15 PART II MINUTES - AUDIT COMMITTEE - 19 MARCH 2019

It was **RESOLVED** that the Part II Minutes of the Audit Committee meeting held on 19 March 2019 be approved as a correct record and signed by the Chair.

CHAIR

Part I
Release to Press

Meeting:	**EXECUTIVE / AUDIT COMMITTEE / COUNCIL**	**Agenda Item:**
Portfolio Area:	Resources	
Date:	**10 September / 11 September / 16 October**	

ANNUAL TREASURY MANAGEMENT REVIEW OF 2018/19 INCLUDING PRUDENTIAL CODE

NON-KEY DECISION

Author	– Belinda White	Ext. 2515
Contributor	– Lee Busby	Ext. 2730
Lead Officer	– Clare Fletcher	Ext. 2933
Contact Officer	– Clare Fletcher	Ext. 2933

1 PURPOSE

1.1 To review the operation of the 2018/19 Treasury Management and Investment Strategy.

2 RECOMMENDATIONS

2.1 **Audit Committee & Executive**
That subject to any comments the 2018/19 Annual Treasury Management Review is recommended to Council for approval.

2.2 **Audit Committee & Executive**
That subject to any comments the updated MRP Policy is recommended to Council for approval.

2.3 **Council**
That subject to any comments from the Audit Committee and the Executive, the 2018/19 Annual Treasury Management Review and updated MRP Policy be approved.

3 BACKGROUND

3.1 Regulatory requirement

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.1.2 During 2018/19 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 28/02/2018)
- a mid-year treasury update report (Council 18/12/2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

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

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

3.2 **The Economy and Interest rates in 2018/19 and current position**

3.2.1 After weak economic growth of 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to 0.7% in quarter 3, before returning to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was expected by the forecasters. The annual growth in Quarter 4 came in at 1.4% and the UK was the third fastest growing country in the G7 in quarter 4. However, since then, the economy shrank in the second calendar quarter of 2019 and since a technical recession is defined as two successive quarters of contraction, that means another similar three months of growth (i.e. showing negative growth), between now and the end of September would tip the UK into the technical definition of its first recession since the financial crisis.

3.2.2 In August 2018 the Monetary Policy Committee (MPC) raised UK Bank Rate from 0.5% to 0.75%, and have abstained from any further increases since then. No further action from the MPC is expected until the uncertainties over Brexit are clear. The MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses) in the three months to December before falling to 3.4% in the three months to March. However despite strong pay growth, Bank of England inflationary target at 2%, and with the government announcing, (albeit unfinanced) pay awards above inflation for some public sector workers, commentators, such as, Senior UK economist Ruth Gregory, predicts that falls in household energy bill will push inflation down below target by the end of the year.

3.2.3 CPI inflation itself has been falling since it peaked at 3.1% in November 2017, reaching a low of 1.8% in January 2019 before rising marginally to 1.9% in February. In the February 2019, Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%. Looking forward, the Bank of England's assumptions based on an orderly BREXIT sees inflation fall in the 3rd quarter of 2020 to 1.9% and then slowly rise by 2022 to 2.4%.

3.2.4 **Brexit**. The current "flextension" from the EU provides until 31st October for the UK to agree a deal. However, if something can be agreed beforehand, then the UK is free to leave at that point. Markets and commentators, though, still suggest that there is little near term prospect of any consensus being formed. This uncertain view is enhanced by the current Conservative Party leadership, which continues to stress that the UK will leave on the 31 October. As such, there remain numerous potential options, including (but not limited to) some form of "deal", "disorderly" / "orderly" no-deal Brexit, second referendum and even a General Election. If there were a disorderly exit, the Bank of England may look to cut interest rates to support growth. Due to this uncertainty there are heightened levels of market volatility, with little expectation for this to be resolved any time soon.

3.2.5 **PWLB borrowing rates.** Since PWLB rates peaked during October 2018, rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the one year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields which determine PWLB rates. The Federal Open Market Committee (Fed) in America increased the US Bank Rate four times in 2018, making nine increases in all in this cycle, to reach 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up.

3.2.6 By December 2018, financial markets considered that the Fed had gone too far with interest rates, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in the short term. The issue for market forecasters now, is how many cuts in the US Bank Rate will there be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole could be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen as shown in the table below.

Table one: PWLB borrowing rates			
Rates* as at:	Apr-18	Apr-19	Aug-19
Years	Rate %	Rate %	Rate %
5	1.89	1.63	1.15
10	2.28	1.95	1.32
15	2.52	2.28	1.64
20	2.61	2.46	1.86
25	2.64	2.52	1.93

* rates include a 0.2% reduction for certainty rate available to Stevenage BC

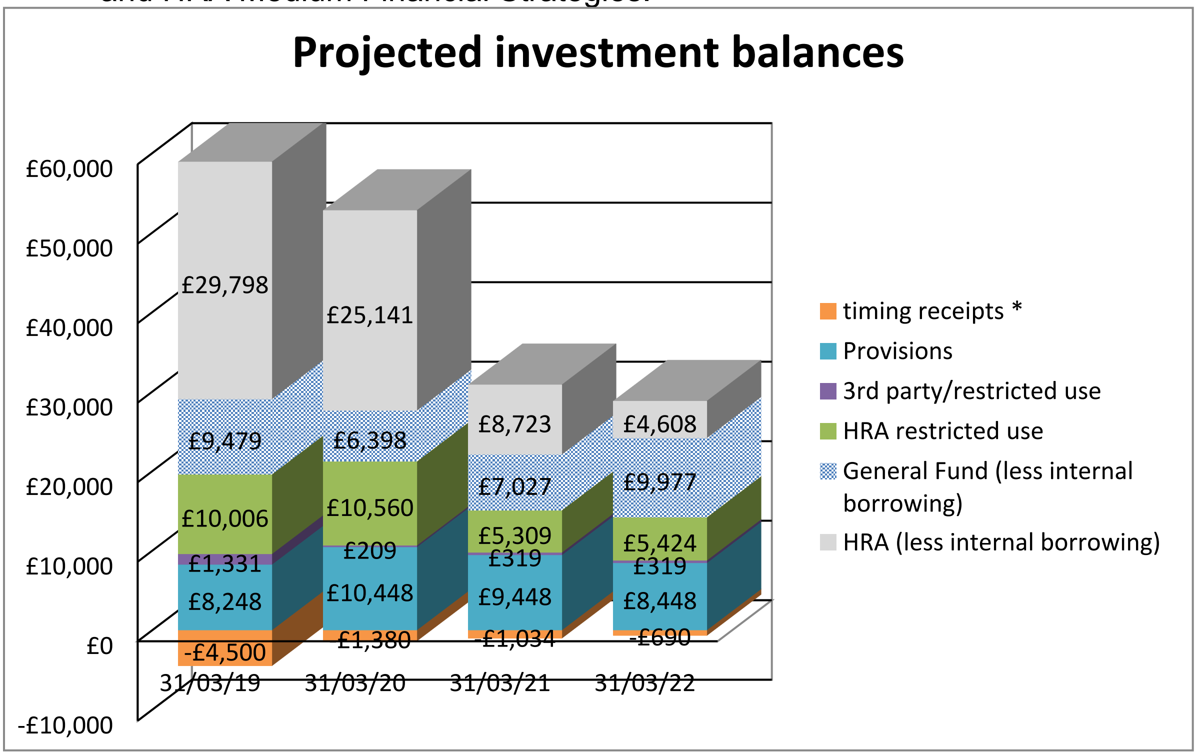
4 OVERALL TREASURY POSITION AS AT 31 MARCH 2019

4.1 As at 31 March 2018 and 2019 the Council's treasury position was as follows:

Table two: Treasury Position						
	2017/18			2018/19		
	31 March 2018 Principal £'000s	Rate / Return %	Average Life (Yrs)	31 March 2019 Principal £'000s	Rate / Return %	Average Life (Yrs)
Total Borrowing	**208,487**	**3.38**	**15.81**	**205,482**	**3.37**	**15.03**
Capital Financing Requirement	221,877			221,940		
Over/(under) borrowing	(13,390)			(16,458)		
Investments Portfolio (see para 5.8)	**62,380**	**0.58**		**54,135**	**0.86**	

4.2 Investment balances have fallen at the end of the year as General Fund and HRA balances were used to support revenue spend in accordance with the planned draw down of these resources in the Medium Term Financial Strategies. The remaining balances include restricted use funds that can only be used to finance capital spend, money set aside as provisions and monies held on behalf of others including council tax and business rates provisions and advance payments.

4.3 The following chart shows the projected use and resulting reduction in cash balances held over the next four years in accordance with the General Fund and HRA Medium Financial Strategies.



Note: the negative value re the timing of receipts reflects the increase in debtors (LEP loan and Housing Benefit subsidy) owed to the Council as at the 31 March 2019 temporarily reducing cash balances.

5 TREASURY MANAGEMENT STRATEGY 2018/19

5.1 The original 2018/19 Treasury Management strategy had projected Bank Rate rises from 0.50% to 0.75% in the 3rd quarter of 18/19 (and to 1.00% in the 3rd quarter of 2019/20), and gradual rises in medium and longer term fixed borrowing rates during 2018/19. The returns achievable on the Council's investments were expected to be modest, based on both the low bank of England base rate and the risk appetite of the TM Strategy. Bank rates are unexpected to rise in the near future as stated in paragraph 3.2.3.

5.2 The impact of the European Union (EU) Referendum decision to leave the EU and the implications of this for the UK economy were uncertain when the strategy was set, and it was thought that further updates of the Strategy may be required once these were known. Updates were given in the two reports to Council, but no changes were needed to the Strategy.

5.3 As a result of the MiFIDII legislation, the Council elected to professional client status to allow uninterrupted advice and opportunities for investment/debt products. The necessary quantitative and qualitative tests were satisfied for the Council to be classified as such, plus the minimum total investment portfolio of £10million was included in the TM Strategy.

5.4 Professional status enabled the Council to maintain its existing relationships with financial institutions and ability to use financial instruments which are not available to retail clients, so these were able to remain part of the TM Strategy.

5.5 The Council's Capital Expenditure and Financing 2018/19.

5.5.1 In 2018/19 the Council spent £30,423,335 on capital projects (General Fund and Housing Revenue Account). The capital programme was funded from existing capital resources and an increase in internal borrowing (General Fund £0.155M, HRA £1.81Million). No external loans were taken out during 2018/19 to fund existing borrowing requirements from previous years. Table three details capital expenditure and financing used in 2018/19.

Table three : 2018/19 Capital Expenditure and Financing				
	2018/19 Original Estimate £'000	2018/19 Quarter 3 Revised Working Budget £'000	2018/19 Actual £'000	2018/19 Variance Actual to Quarter 3 Revised Working Budget £'000
Capital Expenditure:				
General Fund Capital Expenditure	21,708	11,615	8,057	(3,558)
HRA Capital Expenditure	31,355	22,617	22,366	(251)
Total Capital Expenditure	**53,063**	**34,232**	**30,423**	**(3,809)**
Resources Available for Capital Expenditure:				
Capital Receipts	(10,020)	(6,685)	(6,061)	624
Capital Grants /Contributions	(5,325)	(5,134)	(3,133)	2,001
Capital Reserves	(1,803)	(672)	(761)	(89)
Revenue contributions	(8,211)	(6,898)	(7,379)	(481)
Major Repairs Reserve	(20,067)	(12,837)	(11,124)	1,713
Total Resources Available	**(45,426)**	**(32,226)**	**(28,458)**	**3,768**
Capital Expenditure Requiring Borrowing	**7,637**	**2,006**	**1,965**	**(41)**

5.5.2 The Treasury Management review of 2018/19 and Prudential Indicators have been updated to reflect changes to capital budgets which have been approved throughout the year. The actual capital expenditure for 2018/19 was reported to the Executive on 11 July 2019.

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

5.6.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). It represents the amount of debt it needs to/has taken out to fund the programme (and includes both internal and external borrowing). The CFR is then reduced as debt repayments are made and Minimum Revenue Provisions (MRP – see also para 5.7) are made. A separate CFR is calculated for the General Fund and Housing Revenue Account and any transfers of assets (such as land or buildings) will impact on each fund's CFR. The CFR will go up on the fund "receiving" the assets and go down (by the same amount) on the fund "giving" the asset. The government has consulted on the option to transfer assets at zero value however no outcome of the consultation has been published.

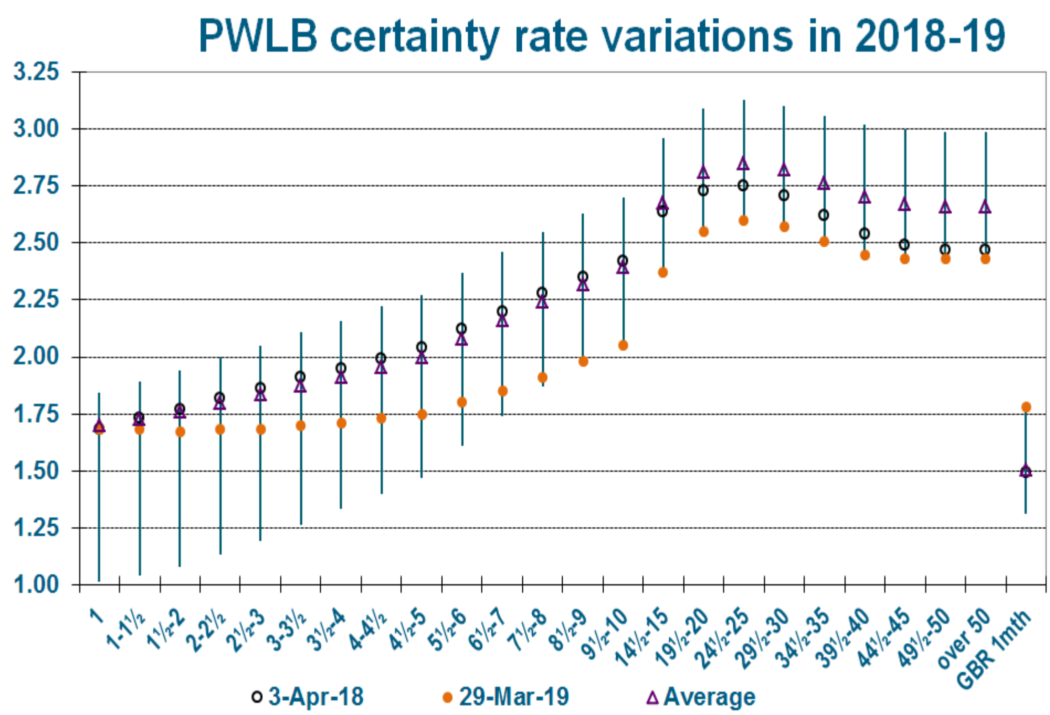
5.6.2 Cash balances (£54.135M as at 31 March 2019) enable the Council to use internal borrowing in line with its Capital Strategy and Treasury Management Strategy. This position is kept under review taking into account future cash balances and forecast borrowing rates. Members should note that these cash balances relate in part to the restricted use right to buy "one for one" receipts

(£10.0million) and provisions (£9.6million) for future liabilities (see also para 5.8.4) and as seen in the chart at paragraph 4.3 these balances are forecast to significantly fall over the next four years.

5.6.3 As at the 31 March 2019 the Council had total external borrowing of £205,482,582. The debt repayment profile is shown in the following table:

Table four Maturity of Debt Portfolio for 2017/18 and 2018/19		
Time to maturity	**31 March 2018 Actual £'000's**	**31 March 2019 Actual £'000's**
Maturing within one year	3,004	263
1 year or more and less than 2 years	263	263
2 years or more and less than 5 years	790	526
5 years or more and less than 10 years	18,956	28,556
10 years or more	185,474	175,874
Total	**208,487**	**205,482**

5.6.4 During 2018/19, shorter term PWLB rates were most volatile, and reached their higher levels towards the end of the year, whereas medium and longer term PWLB rates were at their lowest levels towards the end of the year. The graph below (and table one paragraph 3.2.6) shows the overall position for 2018/19.



5.6.5 The General Fund had external borrowing of £2,808,582, all of which was with the Public Works Loan Board (PWLB). The HRA had external borrowing of £202,674,000 all held with the PWLB, of which £7,763,000 relates to pre 2012 decent homes programme and the remainder £194,911,000 to self- finance the payment made to central government in 2012.

5.6.6 In October 2018, the then 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.

5.6.7 The HRA's operational debt limit, which had been capped by government at £217,685,000, can now be set by the Council. The new limit will be set on the basis of prudence, affordability and sustainability. Opportunities arising from the lifting of the debt cap will be considered as part of the updated HRA business plan presented to Members and subsequent Treasury management reports and indicators will be updated accordingly.

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

Table Five : Capital Financing Requirement 2017/18 and 2018/19			
CFR Calculation	**31-Mar-18 (£'000)**	**31-Mar-19 (£'000)**	**Movement in Year (£'000)**
Opening Balance	**223,275**	**221,877**	
Closing Capital Financing Requirement (General Fund)	15,624	15,121	(503)
Closing Capital Financing Requirement (Housing Revenue Account)	206,253	206,820	567
Closing Balance	**221,877**	**221,941**	
Increase/ (Decrease)	**(1,398)**	**64**	**64**

5.6.9 The CFR for the HRA has increased by £566,753 as a repayment of £1,241,000 was made in year, offset by £1,810,558 new internal borrowing for Decent Homes. There were no asset transfers between the General Fund and HRA in 2018/19.

5.6.10 The General Fund's CFR has decreased by £503,167 - due to;

- the Minimum Revenue Provision (MRP) payment made in year of £661,090 (see also para 5.7)
- less, short term borrowing for Housing GF development of £155,118

5.6.11 Borrowing originally forecast for Investment Properties was not taken in 2018/19.

5.7 **Minimum Revenue Provision (MRP)**

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

5.7.2 The MRP charged to the General Fund in 2018/19 was £661,090, of which £335,058 is effectively funded from regeneration assets and £35,120 funded from investment property with the remainder (£290,912) a net cost to the General Fund.

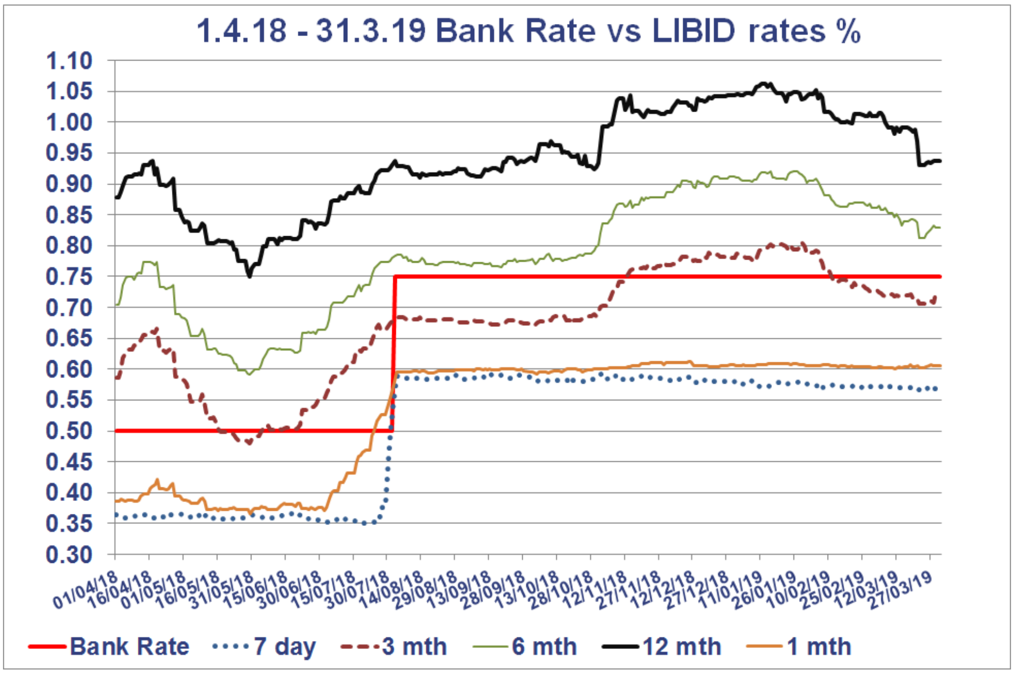
5.7.3 Officers recommend that the MRP calculations should be reviewed in light of the investment being made and resulting extension to the useful life of the asset. (See also para 6.2 and Appendix C.)

5.8 **Cash Balances and Investment rates**

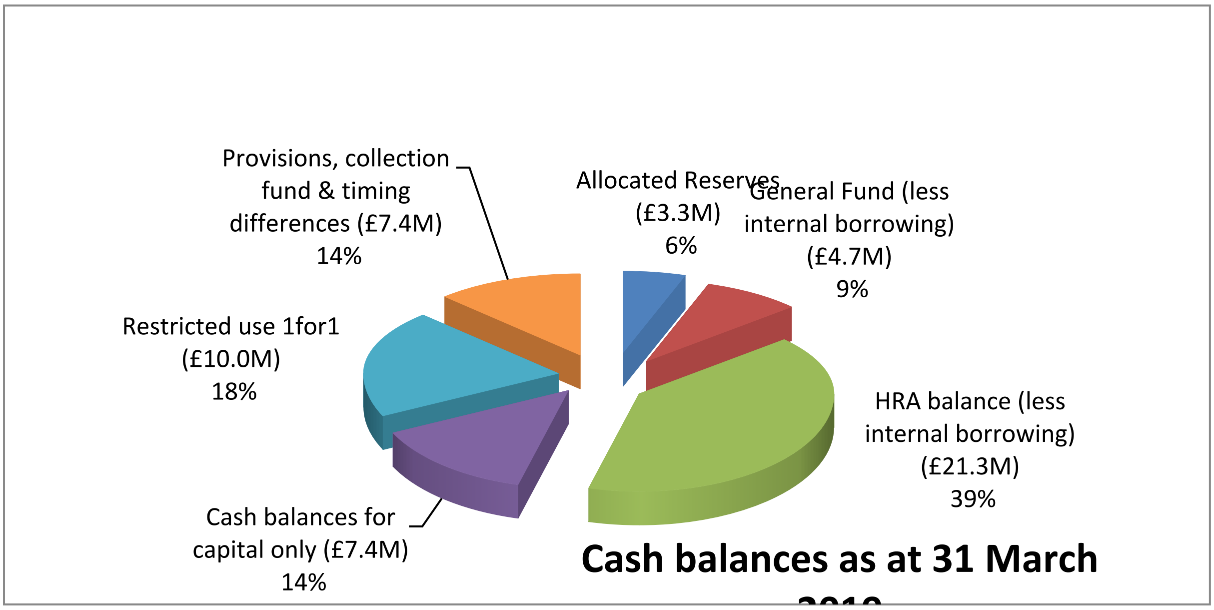
5.8.1 During the year the average cash balance was £68Million, earning interest of £585,017 and achieving an average interest rate of 0.86%. The comparable rate was 0.51% (average 7-day LIBID rate). This compares with an original budget assumption of £305,300 based on average investment rate of 0.7%, however higher cash balances and better than anticipated rates resulted in more investment interest.

5.8.2 During 2018/19 UK Base Rate was increased to 0.75% at the Monetary Policy Committee (MPC) meeting on 2nd August 2018, and remained at that rate during the rest of 2018/19. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year. It was not expected that the MPC would raise UK Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August as cash balances were sufficient to allow this. There continued to be a gap between investing (0.86%) and borrowing rates (2.6% - 25yr PWLB rate March 2019), which meant it was still prudent to maintain the treasury strategy of postponing external borrowing. This policy avoided the cost of holding higher levels of investments and reduces counterparty risk, by using internal borrowing while cash balances allow. (See also section 5.6 and chart at paragraph 4.3).

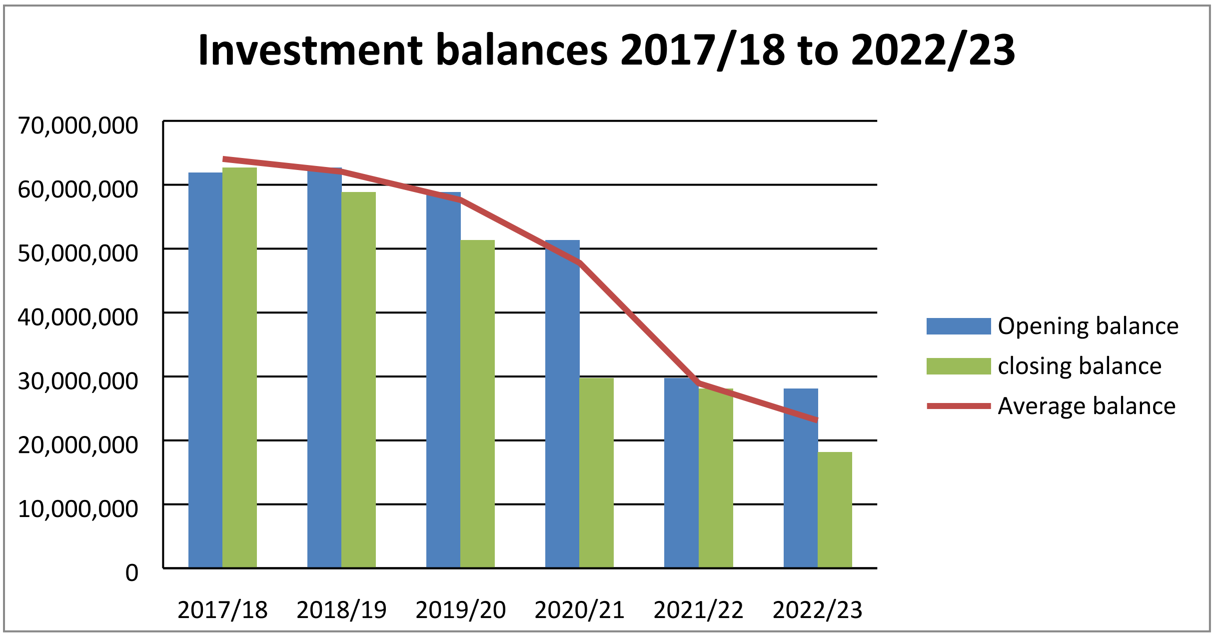
5.8.3 The following chart shows UK Bank Rate and LIBID (London Interbank Bid) rates in 2018/19.



5.8.4 As at 31 March 2019 cash balances were £54.135Million and included one for one right to buy receipts, ring fenced for HRA new social housing schemes (£10.0Million), provisions and reserves held for specific purposes. The apportionment of cash balances at year end is shown in the following chart.



5.8.5 The restrictive use of a proportion of these receipts plus the planned use of resources in line with the Council's capital and revenue strategies means that these resources are not available for new expenditure. The following chart shows the historic level of cash balances and the projected reduction following the planned use of reserves to 2022/23.



5.8.6 Further to the lifting of the HRA debt cap and opportunities to use external borrowing instead of revenue contributions (RCCO) to fund the HRA's capital programme, the forecast investment balances may change subject to approval of the updated HRA business plan. These changes will be incorporated into future Treasury management reports and forecasts provided to Members.

5.8.7 In accordance with the Treasury Management Strategy approved by Council on 28 February 2018, the Council invests it surplus cash balances. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data and counterparty limits dependant on level of cash balances held.

5.8.8 There were no breaches to this policy in 2018/19 with the investment activity during the year conforming to the approved strategy. The Council had no liquidity difficulties and no funds were placed with the Debt Management Office (DMO) during 2018/19, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively.

5.9 **Other Prudential Indicators**

5.9.1 The treasury management indicators for 2018/19 onwards have been updated based on the updated Capital Strategy approved by Council in February 2019 and subsequently updated in the 3rd and 4th quarter capital updates reported to Executive and Council in March and July 2019.

5.9.2 The **net borrowing position** for the Council as at 31 March 2019 was **£151.347Million** (total external borrowings/loans of £205.482Million less total investments held of £54.135Million).

5.9.3 The **operational boundary** and **authorised limit** refers to the borrowing limits within which the treasury team operate. A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. **There were no breaches of either limit in 2018/19.**

5.9.4 The **ratio of financing costs** to net revenue stream is equal to General Fund interest costs divided by the General Fund net revenue income from Council tax, Revenue Support Grant and retained business rates. The 2018/19 indicator is **6.45%.**

5.9.5 The full list of treasury prudential indicators is shown in Appendix A and has been updated for the 2018/19 outturn position and the revised 2019/20 capital programme.

6 OTHER ISSUES

6.1 IFRS 9

6.1.1 Risk management needs to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Key considerations include:

- Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

6.1.2 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

These changes have no impact on the valuation of investments held by **Stevenage Borough Council,** and the statutory override has not been needed.

6.2 MRP Policy

An MRP Policy review is being currently being carried out by officers (see Appendix C), and where asset lives on property are expected to exceed the current life used in the MRP calculation an adjustment maybe considered. The policy remains unchanged in that Option 3 Life expectancy is used in calculation of the MRP charge however the estimation of the life expectancy is being reviewed. The maximum life used will be capped at 50 years as permissible under the prudential code.

6.3 **Operational and Authorised Borrowing Limits**

6.3.1 General Fund borrowing limits were increased as part of the Housing wholly owned company (WOC) report which was recently approved by Council. General Fund limits will be further reviewed in the Annual Treasury Management Strategy due to go to Executive and Council in February.

6.3.2 HRA limits will be reviewed as part of the revised HRA Business Plan presented to Members in November and will reflect the removal of the debt cap.

6.4 **Property Funds and Commercial Strategy**

When the TM Strategy was presented at Audit Committee on 1 February 2017, it was resolved that Council be recommended to approve the use of property funds, subject to market conditions and in consultation with the Resources Portfolio holder and the Audit Committee up to a maximum of £3Million. A review of the Commercial Strategy will be presented to Executive in November and will include a review of the Council's risk appetite. The Assistant Director (Finance and Estates) considers that this is an opportunity to review the use of property fund investment options and a further report will be given to the Audit Committee and the Resources Portfolio Holder on property fund investments.

6.5 **Breach of overdraft Limit on 21 May 2018**

As previously reported, on 21 May 2018, a request was made to return funds held by the Council from Amundi, a Money Market Fund (MMF). This fund is held in a Luxembourg bank. Council staff were unaware that it was a bank holiday on that day in Luxembourg, where Amundi's bank is based, which meant that the requested was not processed and funds weren't returned until the next working day. A short term overdraft facility was arranged to ensure Council's obligations were met, which resulted in an interest payment of £3,006. Measures have been out in place to prevent this happening in the future.

6.6 **Queensway Properties (Stevenage) LLP**

As part of the Queensway redevelopment proposals the Council is acting as agent for Aviva in that construction monies are held in a named Stevenage Borough Council bank account. However the sole signatories to that account are Aviva representatives and the Council has no access to these funds. Only Aviva can make payments from this account and the Council does not have authority to invest this money. Therefore, although the monies are in a

Stevenage Borough account they are excluded from Treasury management strategy and are not considered in HSBC counterparty limits. As the redevelopment of Queensway continues monies will be drawn down from this account and when works are complete the account will be closed.

7 IMPLICATIONS

7.1 Financial Implications

7.1.1 This report is of a financial nature and reviews the treasury management function for 2018/19. Any consequential financial impacts identified in the July Capital strategy and 4th quarter revenue budget monitoring report have been incorporated into this report.

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

7.2 Legal Implications

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

7.3 Equalities and Diversity Implications

7.3.1 The purpose of this report is to review the implementation of the Treasury management policy in 2018/19. Before investments are placed with counter parties the Council has the discretion not to invest with counter parties where there are concerns over sovereign nations' human rights issues.

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

7.4 Risk Implications

7.4.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. Should these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

7.5 Policy Implications

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

7.5.2 Extending the asset life of relevant existing assets to 50 years relates to the new MRP Policy recommended for approval as per Appendix C.

BACKGROUND PAPERS

- BD1 Mid year Treasury update (Council 18 December 2018)
- BD2 Treasury Management Strategy including Prudential Code Indicators 2018/19 (Council 28 February 2018)

APPENDICES

- Appendix A Prudential Indicators
- Appendix B Investment and Borrowing Portfolio
- Appendix C MRP Policy

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Treasury Management Prudential Indicators | **Appendix A** | 2018/19 Treasury Management Outturn

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Capital Expenditure (Based on Capital Strategy Feb 2018):	2017/18 Actual	2018/19 Original Estimate February 2018	2018/19 Revised September 2018	2018/19 Revised Estimate February 2019	2018/19 Actual	2019/20 Revised July 2019	2020/21 Revised February 2019	2021/22 Revised February 2019
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund	9,013	21,708	32,007	15,573	8,057	33,688	8,936	7,130
HRA	17,022	31,355	26,128	23,528	22,366	47,792	35,676	35,479
Total	**26,035**	**53,063**	**58,135**	**39,101**	**30,423**	**81,479**	**44,612**	**42,609**

Ratio of financing costs to net revenue stream:	2017/18 Actual	2018/19 Original Estimate February 2018	2018/19 Revised September 2018	2018/19 Revised Estimate February 2019	2018/19 Actual	2019/20 Revised February 2019	2020/21 Revised February 2019	2021/22 Revised February 2019
	%	%	%	%	%	%	%	%
General Fund Capital Expenditure	6.91%	14.22%	14.22%	7.82%	6.45%	6.77%	10.31%	10.44%
HRA Capital Expenditure	15.61%	16.94%	16.94%	16.94%	14.94%	16.78%	16.46%	16.16%

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

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

Authorised Limit for external debt	2017/18 Actual	2018/19 Original Estimate February 2018	2018/19 Revised September 2018	2018/19 Revised Estimate February 2019	2018/19 Actual	2019/20 Revised March 2019	2020/21 Revised March 2019	2021/22 Revised March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	25,016	40,666	40,666	25,016	25,016	48,207	49,765	50,593
Borrowing - HRA	210,973	217,655	217,655	210,973	210,973	235,729	239,532	244,628
Total	**235,988**	**258,321**	**258,321**	**235,988**	**235,988**	**283,937**	**289,297**	**295,221**

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

Operational Boundary for external debt	2017/18 Actual	2018/19 Original Estimate February 2018	2018/19 Revised September 2018	2018/19 Revised Estimate February 2019	2018/19 Actual	2019/20 Revised March 2019	2020/21 Revised March 2019	2021/22 Revised March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	20,016	38,166	38,166	20,016	20,016	43,207	44,765	45,593
Borrowing - HRA	205,973	211,209	211,209	205,973	205,973	230,729	234,532	239,628
Total	**225,988**	**249,376**	**249,375**	**225,988**	**225,988**	**273,937**	**279,297**	**285,221**

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

Gross & Net Debt	31/03/2018 Actual	31/03/2019 Original Estimate February 2018	31/03/2019 Revised September 2018	31/03/2019 Revised Estimate February 2019	31/03/2019 Actual	31/03/2020 Revised February 2019	31/03/2021 Revised February 2019	31/03/2022 Revised February 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Gross External Debt - General Fund	4,572	18,389	18,389	20,016	2,809	38,341	39,899	40,727
Gross External Debt - HRA	203,915	206,174	206,174	205,973	202,674	230,729	234,532	239,628
Gross External Debt	**208,487**	**224,563**	**224,563**	**225,988**	**205,483**	**269,070**	**274,431**	**280,355**
Less Investments	(62,380)	(45,563)	(45,563)	(58,727)	(54,135)	(38,770)	(29,806)	(31,479)
Net Borrowing	**146,107**	**179,000**	**179,000**	**167,261**	**151,348**	**230,301**	**244,625**	**248,876**

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

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

Capital Financing Requirement	31/03/2018 Actual	31/03/2019 Original Estimate February 2018	31/03/2019 Revised September 2018	31/03/2019 Revised Estimate February 2019	31/03/2019 Actual	31/03/2020 Revised February 2019	31/03/2021 Revised February 2019	31/03/2022 Revised February 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Capital Financing Requirement GF	15,623	35,666	35,666	17,516	15,121	35,841	37,399	38,227
Capital Financing Requirement HRA	206,253	208,709	208,709	205,973	206,820	210,729	214,532	219,628
Total Capital Financing Requirement	**221,876**	**244,376**	**244,376**	**223,488**	**221,941**	**246,570**	**251,931**	**257,855**

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

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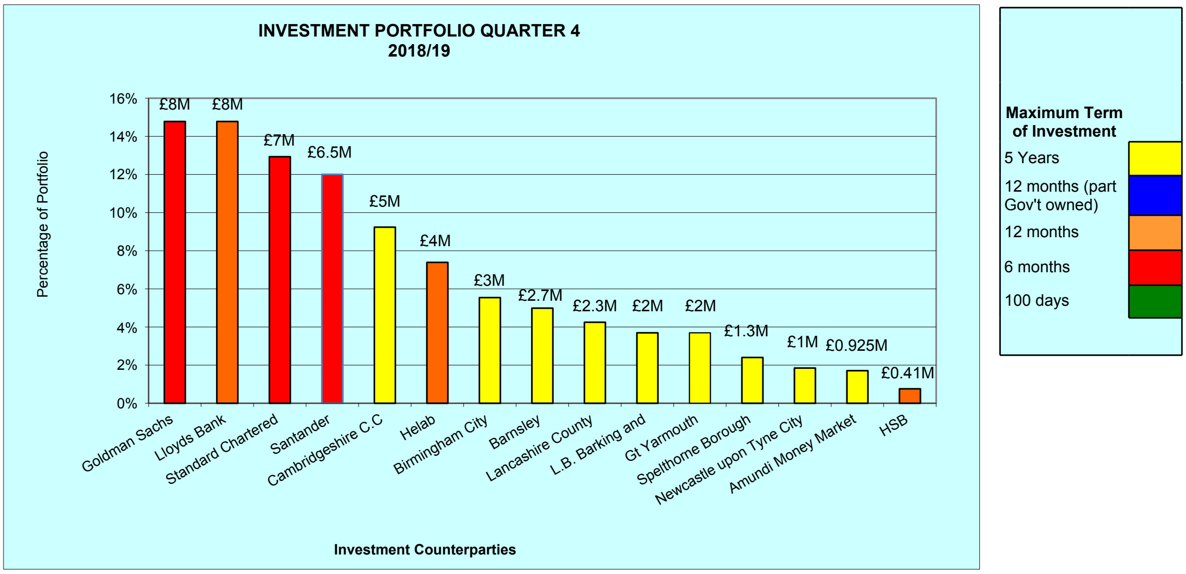
INVESTMENT PORTFOLIO QUARTER 4 (31st March 2019) — Appendix B

Average interest rate - 2017/18	**0.58%**
Average interest rate - 2018/19	**0.86%**
Bank of England Bank Rate	**0.75%**

Borrower	Nation	Sovereign Rating (Fitch)	Amount £'s	From	To	Rate %
Money Market Funds (Instant Access)						
Amundi	UK	AA	925,000			0.73
95 Day Notice						
Standard Chartered Bank	UK	AA	7,000,000			1.01
Fixed Term Deposit						
HSBC	UK	AA	410,000	29-Mar-19	01-Apr-19	0.60
Birmingham City Council	UK	AA	3,000,000	24-Apr-17	24-Apr-19	0.80
Goldman Sachs International	UK	AA	5,000,000	17-Dec-18	17-Jun-19	1.05
Santander UK	UK	AA	3,500,000	20-Dec-18	20-Jun-19	1.00
Spelthorne Borough Council	UK	AA	1,300,000	22-Jun-17	21-Jun-19	0.70
Santander UK	UK	AA	3,000,000	02-Jan-19	02-Jul-19	1.00
Goldman Sachs International	UK	AA	3,000,000	17-Jan-19	17-Jul-19	1.09
Helaba	GER	AAA	4,000,000	14-Aug-18	13-Aug-19	0.97
Cambridgeshire County Council	UK	AA	5,000,000	11-Sep-18	10-Sep-19	1.05
Lloyds Bank plc	UK	AA	5,000,000	23-Nov-18	22-Nov-19	1.10
Lloyds Bank plc	UK	AA	3,000,000	23-Jan-19	22-Jan-20	1.10
Newcastle upon Tyne City Council	UK	AA	1,000,000	03-Apr-17	03-Apr-20	1.00
London Borough of Barking and Dagenham	UK	AA	2,000,000	09-Jan-17	09-Apr-20	0.98
Lancashire County Council	UK	AA	2,300,000	06-Sep-18	07-Sep-20	1.20
Great Yarmouth Borough Council	UK	AA	2,000,000	16-May-18	17-May-21	1.45
Barnsley Metropolitan Borough Council	UK	AA	2,700,000	15-Sep-17	15-Sep-21	0.98
			54,135,000			



LOAN PORTFOLIO QUARTER 4 (31st March 2019)

Decent Homes Borrowing

Lender	Type	Rate %	Amount £'s	From	To	Life of Loan
PWLB	Fixed Rate/Maturity	4.75	2,000,000	04/03/2010	04/03/2035	25 years
PWLB	Fixed Rate/Maturity	4.28	1,800,000	25/05/2010	25/05/2035	25 years
PWLB	Fixed Rate/Maturity	4.24	963,000	17/08/2010	17/08/2035	25 years
PWLB	Fixed Rate/Maturity	4.65	3,000,000	25/03/2010	25/09/2035	25 1/2 years
			7,763,000			

Self Financing Borrowing

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

Prudential Borrowing

Lender	Type	Rate %	Amount £'s	From	To	Life of Loan
PWLB	Fixed Rate/EIP	2.37	1,052,632	19/08/2013	19/02/2022	9 1/2 years
PWLB	Fixed Rate	2.29	1,755,950	19/03/2018	19/03/2028	10 years
			2,808,582			

Total Borrowing	**205,482,582**

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Appendix C (September 2019 Update)

Minimum Revenue Provision Policy

September 2019 update to estimation techniques used in calculating MRP charges:
Officers will undertake a review of all MRP charges currently made on existing borrowing that relates to all asset lives. This review will take into account the freehold/leasehold classification of the asset and investment decisions relating to that asset. This will be particularly relevant in the regeneration areas of Stevenage such as SG1. The method used to calculate MRP will be reviewed, with the preferred method being Option 3 (Asset Life Method). Where appropriate the asset life will be changed, the maximum life used will not exceed 50 years, but will reflect the longer anticipated life of the asset (as permissible under the prudential code).

Minimum Revenue Provision Policy Statement 2019/20

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 dependent 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.

Stevenage Borough Council
Audit Committee

10 September 2019

Shared Internal Audit Service – Progress Report

Recommendation

Members are recommended to:

a) Note the Internal Audit Progress Report

b) Note the Status of Critical and High Priority Recommendations

Contents

1 Introduction and Background

<u>Purpose of Report</u>

1.1 To provide Members with:

a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2019/20 Internal Audit Plan as at 23 August 2019.
b) The findings for the period 1 April 2019 to 23 August 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 23 August 2019.

<u>Background</u>

1.2 Internal Audit's Annual Plan for 2019/20 was approved by the Audit Committee at its meeting on 19 March 2019. 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

<u>Delivery of Audit Plan and Key Audit Findings</u>

2.1 As at 23 August 2019, 27% of the 2019/20 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
Stevenage Museum	July 2019	Satisfactory	Two High, One Medium, Five Low/Advisory priority
Herts Home Improvement Agency (2018/19) *	July 2019	Limited	Seven High, Eight Medium, Three Low/Advisory priority
Cemeteries	August 2019	Satisfactory	Four Medium priority
Rechargeable Works	August 2019	Satisfactory	One Medium priority
Insurance	August 2019	Satisfactory	One Medium, One Low/Advisory priority

* This was a Hertfordshire County Council led internal audit which has been distributed to the Council as a contributing partner of the Hertfordshire Home Improvement Agency.

2.3 The table below also summarises the position with regard to 2019/20 projects as at 23 August 2019. Appendix A provides a status update on each individual project within the 2019/20 Internal Audit Plan. Details of indicative 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	4	11%
Draft Report Issued	2	6%
In Fieldwork/Quality Review	5	14%
In Planning/Terms of Reference Issued	9	25%
Allocated	15	41%
Not Yet Allocated	1	3%
Deferred/Cancelled	0	0%
Total	36	100%

Proposed Audit Plan Amendments

2.4 There has been no change to the Audit Plan since it was approved on 19 March 2019.

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 2019/20 annual performance indicators were approved at the SIAS Board meeting in March 2019. 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 23 Aug 2019
1. Planned Days – percentage of actual billable days against planned chargeable days completed	95%	28% (96/346 days)	27% (92.5/346 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	22% (8/36 projects)	17% (6/36 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (3 received) Note (1)
4. Number of Critical and High Priority Audit Recommendations agreed	95%	95%	100% (9 High agreed) Note (2)

Note (1) – the 3 received so far in 2019/20 relate to 2018/19 audits.
Note (2) – 7 recommendations are from the Hertfordshire County Council led internal audit of the Hertfordshire Home Improvement Agency. This has been distributed to the Council as a contributing partner of the Agency.

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2019/20 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 – 74 days									
Main Accounting System (General Ledger)						8	Yes	0	Allocated
Debtors						6	Yes	0	Allocated
Creditors						10	Yes	0	Allocated
Treasury Management						6	Yes	0	Allocated
Payroll						10	Yes	0	Allocated
Council Tax						6	Yes	0	Allocated
NDR						6	Yes	0	Allocated
Housing Benefits						6	Yes	0	Allocated
Cash and Banking						6	Yes	0	Allocated
Housing Rents						10	Yes	0	Allocated
Operational Audits – 129 days									
Health and Safety						10	Yes	2.0	In fieldwork
Sickness Absence Management						10	Yes	1.5	In planning
Facilities Management						6	Yes	5.5	Draft report issued
Rechargeable Works	Satisfactory	0	0	1	0	10	Yes	10.0	Final report issued
Insurance	Satisfactory	0	0	1	1	6	Yes	6.0	Final report issued
Garage Investment Programme						10	Yes	0.5	In planning
Cemeteries	Satisfactory	0	0	4	0	6	Yes	6.0	Final report issued
Herts Home Improvement Agency						2	No	0	Not yet allocated
Town Centre Regeneration – SG1						12	Yes	0.5	In planning
Queensway/Marshgate Redevelopment						12	Yes	2.0	In planning
Recycling						10	Yes	1.0	In fieldwork
Stevenage Museum	Satisfactory	0	2	1	5	7	Yes	7.0	Final report issued

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Homelessness Reduction Act						10	Yes	4.5	In fieldwork
Land Charges						8	Yes	1.0	In planning
Safeguarding						10	Yes	9.5	Draft report issued
Procurement, Contract Management and Project Management – 30 days									
Major Refurbishment Contract						10	Yes	0	Allocated
Procurement						10	Yes	5.5	In fieldwork
Housing Development Schemes						10	Yes	0	Allocated
Risk Management and Governance – 12 days									
Risk Management						6	Yes	0	Allocated
Corporate Governance						6	Yes	0	Allocated
IT Audits – 24 days									
IT Service Shared Service Agreement						6	Yes	1.0	ToR Issued
Cyber Security Follow-up						6	Yes	0	Allocated
Information Management						6	Yes	1.0	ToR Issued
Project Management						6	Yes	1.0	ToR Issued
Shared Learning and Joint Reviews – 8 days									
Shared Learning						4	No	0.5	Through year
Joint Review – SAFS						2	Yes	0.5	ToR Issued
Joint Review – Building Control						2	Yes	0	In planning
Ad Hoc Advice – 3 days									
Ad Hoc Advice						3	No	0.5	Through year
Follow-up Audits – 10 days									
CCTV						5	Yes	0	In planning
Street Cleansing						5	Yes	0.5	In fieldwork
Completion of 18/19 Projects – 10 days									
Various						10	Yes	3.5	Complete

APPENDIX A - PROGRESS AGAINST THE 2019/20 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Contingency – 4 days									
Contingency						4	No	0	Not yet allocated
Strategic Support – 46 days									
Annual Report and Head of Internal Audit Opinion 2018/19						3	Yes	3.0	Complete
Audit Committee						12	Yes	5.0	Through year
Client Liaison						10	Yes	4.0	Through year
Liaison with External Audit						1	Yes	0.5	Through year
Monitoring						10	Yes	4.0	Through year
SIAS Development						5	Yes	5.0	Through year
2020/21 Audit Planning						5	Yes	0	Allocated
SBC TOTAL		**0**	**2**	**7**	**6**	**350**		**92.5**	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
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: - Governance for Hertfordshire CCTV Partnership - Governance for Hertfordshire CCTV Partnership Ltd. - Governance lines between the Partnership and the Company - Member roles and responsibilities -Officer roles and responsibilities 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. Revised to 31 May 2019.	January 2019. 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. March 2019. On track. May 2019. The Joint Executive did not meet as planned on 10 April 2019. The Draft Framework will now be presented to the Joint Executive on 5 June 2019. August 2019. The Draft Framework was presented to the Joint Executive on 5 June 2019.	Implemented.
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. Revised to 30 September 2019.	January 2019. On track. March 2019. On track. May 2019.	Not yet implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
		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.				In progress. August 2019. In progress	
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. On track. March 2019. On track. May 2019. A review of the shareholder agreement has been undertaken and will be presented to the Joint Executive on 5 June 2019. August 2019. A review of the shareholder agreement has been undertaken and was presented to the Joint Executive on 5 June 2019.	Implemented.

APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
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. On track. March 2019. On track. May 2019. Draft Revised Terms of Reference to be presented at the Joint Executive on 5 June 2019. August 2019. Draft Revised Terms of Reference were presented at the Joint Executive on 5 June 2019.	Implemented.
5.	CCTV (joint review) 2018/19.	We recommend that, once agreed, the 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.	New Terms of Reference will be submitted for formal incorporation into constitutional arrangements for the four Partner Authorities.	Each of the four Partner Authorities.	31 July 2019.	January 2019. On track. March 2019. On track. May 2019. On track pending approval at the Joint Executive on 5 June 2019. August 2019. Approved at the Joint	Implemented.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
						Executive on 5 June 2019.	
6.	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, CCTV Officer Management Board and Company Board of Directors as appropriate.	31 July 2019. Revised to 30 September 2019.	January 2019. On track. March 2019. On track. May 2019. This will be captured as part of the partnership agreement. Revised deadline is 30 September 2019. August 2019. In progress.	Not yet implemented – continue to monitor.
7.	TSS Improvement Plan – Governance 2018/19.	Management should complete the review of the IT policies and tailor them to the needs of both Councils. The purchased IT policy software should be deployed without any further delay and the policies should be made available to all members of staff. Management should track and monitor staff attestation and	Meta - compliance must be fully implemented first to assure acceptance and compliance from staff and this cannot be rolled out till Azure-AD project is finalized. This project has been assigned to Project Manager Roxanne Owedele. Time-line as follows: Azure AD - end of May Implementation of	ICT Strategic Partnership Manager.	Creation - April - August 2019 Deployment - November	May 2019. This is a new addition and the management response opposite is therefore the latest comment. August 2019. In progress.	Not yet implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
		responses. Furthermore, management should review and, where necessary, revise the Service's IT procedures so that they are consistent across both Councils. The procedures should be documented and communicated to all members of staff.	Meta - Compliance – end of July Deployment of polices as written on intranet - as completed Deployment of policies via Meta-Compliance two a month – Final completion November During that period policies will be confirmed and placed on the intranet, with a number that must be written or amended. To get staff fully compliant will require roll-out of Meta - Compliance. There are two classifications, policies and protocols; policies are documents which all staff need to adhere to and protocols are internal polices for ICT staff only. Policies: Acceptable Usage Policy – Written and gone to HR for consultation Data Protection Policy – Completed				

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
			and on intranet Mobile Device Policy – In draft security team to approve ICT Monitoring Policy - Security team to write ICT Remote Working Policy - Security team/MGT team to write Social Media Policy – Completed and on intranet Data sharing policy (Contractors) - Security team to write Protocols: Security Breach response Protocol - Security team to write Change Control Protocol – In draft				
8.	TSS Improvement Plan – Governance 2018/19.	Representatives from both Councils should agree a shared set of expectations for how technology will be used to achieve their respective strategic objectives. These expectations should form the basis for a defined IT Strategy for the Shared IT Service,	ICT strategy & Roadmap are being written in collaboration with Microsoft Navigator consultancy project.	ICT Strategic Partnership Manager.	August 2019.	<u>May 2019.</u> This is a new addition and the management response opposite is therefore the latest comment. <u>August 2019.</u> In progress.	Not yet implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
		which should include as a minimum: The expectations for the levels of service to be provided The metrics for monitoring the performance of the Shared IT Service. The performance of the Service should be reviewed on a routine basis by the ICT Partnership Board and measured against the defined metrics and key performance indicators.					
9.	Cyber Security - follow up 2018/19.	Management should establish a network access control to block unknown or unauthorised devices from connecting to the Council's IT network. This should include restricting the ability to physically connect to the IT network. Where there is a demonstrable need for a device to connect to the IT network, the Service should require: The purpose for the connection has been recorded	The Council has created a Security & Network Team who has been tasked to look at security / network tools. There is also a planned upgraded Office 365 and in particular Intune to manage all mobile (non-network connected) devices. The plan is to ensure that only known devices are allowed to access Council systems.	ICT Strategic Partnership Manager.	Network Tools July 2019. Intune October 2019.	May 2019. This is a new addition and the management response opposite is therefore the latest comment. August 2019. In progress.	Not yet implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
		Appropriate security controls have been enabled on the device connecting to the IT network The period of time that the device will require the connection All connections are approved before being allowed to proceed. Devices connected to the IT network should be reviewed on a routine basis.					
10.	Cyber Security - follow up 2018/19.	There should be a record of the configuration of the Council's firewalls, which includes but is not limited to: The purpose of all of the rules The expected configuration and activity for each rule The member of staff that requested and approved the rule The configuration of the firewall should be reviewed on a routine basis. The Service should develop a Firewall rule	The Council has created a Security & Network Team who have been tasked to look at replacing the entire Firewall (and switch) estate. As part of this work all firewall configurations will need to be reviewed and recorded.	ICT Strategic Partnership Manager.	November 2019.	<u>May 2019.</u> This is a new addition and the management response opposite is therefore the latest comment. <u>August 2019.</u> In progress.	Not yet implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (23 August 2019)
		policy to provide the list of controls that are required to secure firewall implementations to an approved level of security.					
11.	Incident Management - follow up 2018/19.	Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre. A complete IT Disaster Recovery scenario test on all applications and systems should take place to provide assurance that recovery could happen within the expected time frame. The Service should document the results of the test to determine the further actions required to improve the efficacy of the plan.	We have started a project to install a secondary Microware link between our data centres. This will give us a resilient link where either can be down, and connectivity remains. Also, with our upgrade to horizon VDI, we are installing hardware which will allow either site to run 100% of capacity allowing the complete downing of one site for upgrade work but will of course allow for full capacity in the event on one data centre being of offline.	ICT Strategic Partnership Manager.	August 2019 – Microwave Link. October 2019 - VDI upgrade.	<u>May 2019.</u> This is a new addition and the management response opposite is therefore the latest comment. <u>August 2019.</u> In progress.	Not yet implemented – continue to monitor.
12.	Incident Management - follow up 2018/19.	Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT	Also, with our upgrade to horizon VDI, we are installing hardware which will allow either site to run 100% of capacity	ICT Strategic Partnership Manager.	August 2019 – DR review. October 2019 - VDI upgrade.	<u>May 2019.</u> 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 (23 August 2019)
		services at a single data centre. A complete IT Disaster Recovery scenario test on all applications and systems should take place to provide assurance that recovery could happen within the expected time frame. The Service should document the results of the test to determine the further actions required to improve the efficacy of the plan.	allowing the complete downing of one site for upgrade work but will of course allow for full capacity in the event on one data centre being of offline.			August 2019. In progress.	
13.	Stevenage Museum 2019/20.	Outstanding actions on the 'Museum Operational Management Risk Reduction Plan' are closed down without further delay.	Already started, complete following next cycle of 1-2-1s.	Museum Curator.	October 2019.	August 2019. This is a new addition and the management response opposite is therefore the latest comment.	Not yet implemented – continue to monitor.
14.	Stevenage Museum 2019/20.	Access to the safe and petty cash is restricted and the keys to both the safe and petty cash tin are given to a nominated senior member of staff; Reimbursements for petty cash should be limited to a nominated senior member of staff.	Museum Curator / Senior Museum Officer to hold the petty cash key. If Senior Museum Officer is not at work, to hand over to another nominated member of staff (sign in book to be maintained).	Museum Curator.	July 2019.	August 2019. This is a new addition and the management response opposite is therefore the latest comment.	Not yet implemented – continue to monitor.

APPENDIX C – AUDIT PLAN ITEMS (APRIL 2019 TO MARCH 2020) – INDICATIVE START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept
2018/19 Projects Requiring Completion **(Complete)**	Safeguarding **(Draft Report Issued)**	Homelessness Reduction Act (In Fieldwork)	Health and Safety (In Fieldwork)	Street Cleaning (follow up) (In Fieldwork)	Herts Home Improvement Agency (Not yet allocated)
Insurance **(Final Report Issued)**	Rechargeable Works **(Final Report Issued)**	Recycling (In Fieldwork)	Land Charges (In Planning)	CCTV (follow up) (In Planning)	Garage Investment Programme (In Planning)
Cemeteries **(Final Report Issued)**	Facilities Management **(Draft Report Issued)**		Procurement (In Fieldwork)	IT Shared Service Agreement (TOR Issued) (b/f from Sept)	Town Centre Regeneration – SG1 (In Planning)
Stevenage Museum **(Final Report Issued)**					IT Information Mgmt (TOR Issued) (b/f from Nov)
Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Housing Development Schemes (Allocated)	Council Tax (Allocated)	Payroll (Allocated)	Risk Management (Allocated)	Corporate Governance (Allocated)	
Cash & Banking (Allocated)	Business Rates (Allocated)	Debtors (Allocated)	Housing Rents (Allocated)	IT Cyber Security (follow up) (Allocated)	
Queensway/Marshgate Redevelopment (In Planning)	Housing Benefits (Allocated)	Creditors (Allocated)	Main Accounting (Allocated)	IT Project Management (TOR Issued) (c/f from June)	
	Major Refurbishment Contract (flat blocks) (Allocated)	Treasury Management (Allocated)		Sickness Absence Management (In Planning) (c/f from July)	

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.

SIAS

Shared Internal Audit Service
Hertfordshire in Partnership

Shared Internal Audit Service

Annual Report **2018/19**

Annual Report Contents

Introduction

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2018/19.

I am writing this year's introduction with a smile on my face, and a quiet sense of professional satisfaction. We have reason to celebrate success this year in that we achieved our overall performance targets again despite several ongoing challenges. This follows a two-year period where our targets were narrowly missed.

This has only been possible with the commitment and dedication of both the in-house team and our external service provider, as well as the co-operation of our partners and stakeholders. I am very proud of the work of the SIAS Team and delighted to be able to look to the future with a sense of cautious optimism.

Following the completion of the SIAS restructure in 2017/18, the year had a strong focus on delivery of our partners audit plans, as well as consolidation, stability and revisiting the 'nuts and bolts' of the service to ensure that we had solid foundations for the future.

We are pleased to have BDO back with us as our external delivery partner after a competitive tender process. They have been a vital component of service resilience and access to specialist skills, and we look forward to the continuation of our successful relationship.

I received some sage advice recently from one of our Audit Committee Chairs, who reminded me that internal audit is not just about performance indicators but also about positive outcomes for good governance. To this end, we expanded and developed hugely beneficial relationships with our Audit Committees and achieved notable success in areas such as follow-up and implementation of internal audit recommendations.

For further highlights, I invite you to delve into the Annual Report itself and, as ever, I enjoy the engagement, dialogue and feedback the report fosters.

Chris Wood
Head of the Shared Internal Audit Service

June 2019

Levels of Delivery

Whilst the Service faced some challenges during the year arising from staff sickness absences and vacancies, it nonetheless surpassed its overall target of delivering 95% of days commissioned by clients with a final outturn of 96%. This is a testament to the hard work and resilience of the SIAS Team.

Despite the challenges referred to above, the Service achieved its overall target of delivering 95% of its audit reviews to draft report stage by the close of the year.

Achieved its overall targets despite resilience challenges...

Figure 1: Percentage of audits days delivered

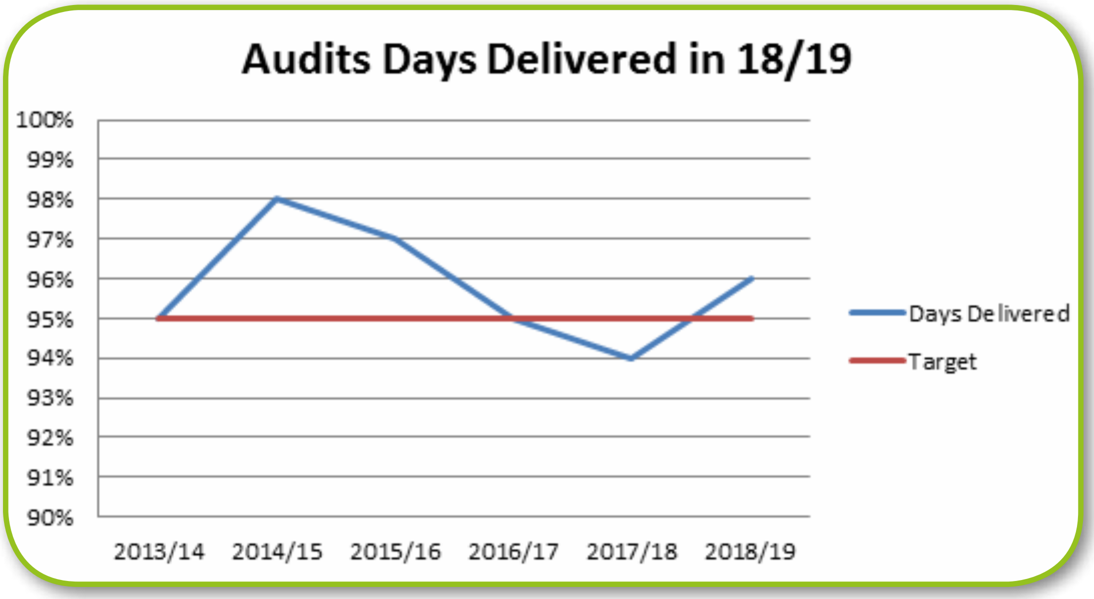
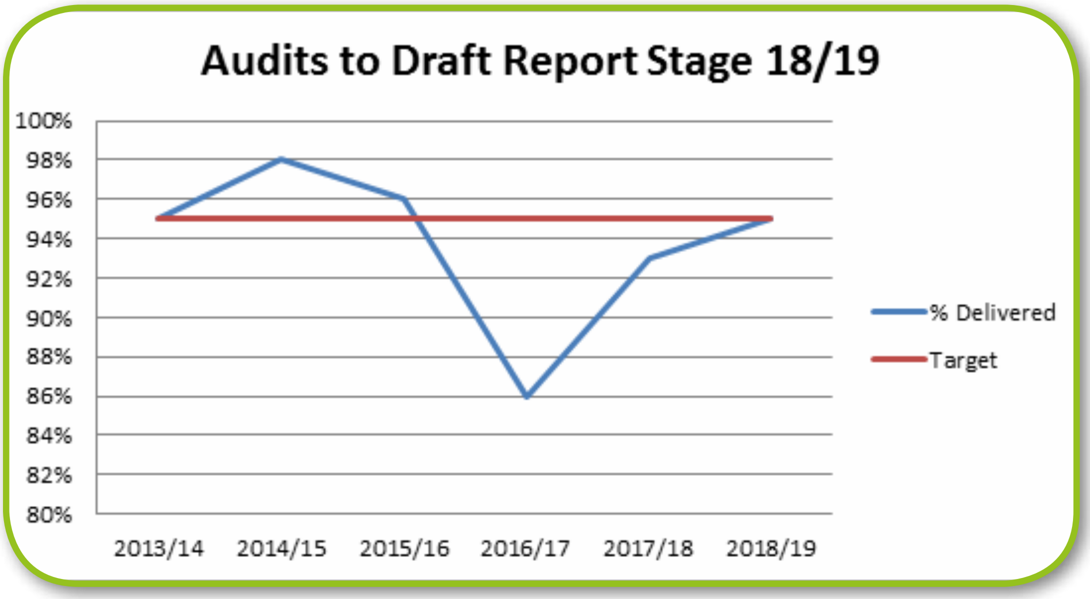


Figure 2: Percentage of audits to draft stage



Shared learning - The Power of Partnership

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

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

Over the course of 2018/19, our quarterly shared learning papers continued to be a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work (e.g. high priority recommendations from across our partners) and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Services. A recurring theme arising from our internal audit work was partnership or shared service governance.

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

We have used our governance expertise to develop internal audit recommendation databases, update Audit Committee Terms of Reference and facilitate the Annual Governance Statement process for our partners, with the learning from one partner informing similar exercises at others.

During the year, an audit on Financial Monitoring and Business Continuity Arrangements– 3rd Party Contractors fed directly into a Member-led Scrutiny on supply, market and contractor volatility post Carillion at one of our partners. This topic has now informed several audit plans of other SIAS partners and had also featured in the ‘Audit Together’ newsletter to which we contribute, along with other topical issues such as Brexit Preparedness.

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

Developing our People and Processes

SIAS is committed to providing its services to clients in the most cost effective and resilient way possible, while giving the service the management and performance information it needs to support decision making and work allocation processes. The development of our in-house time recording, and audit plan management system is an excellent example of a service development that has delivered on both counts.

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

Building on these recent developments, SIAS has introduced an online, real-time performance dashboard that allows our team to track their individual performance against targets, review their work allocation and monitor progress of audit delivery. This has been integrated into the monthly one-to-one meetings the team has with their line managers, as well as the formal appraisal (PMDS) process.

We also commenced the process of reviewing and updating our Internal Audit Manual. This is a comprehensive set of working documents designed to inform, direct, guide and train internal auditors within the team, and includes things such as our vision, structure charts, policies, audit methodology, quality control arrangements and working paper and report templates.

New assurance levels and internal audit recommendation priorities were introduced across our partners and became 'business as usual' as the year progressed.

Processes of course mean nothing without skilled team members to meet the ever-changing demands on a modern internal audit service.
We rolled out a Training and Skills Matrix based on the Chartered Institute of Internal Auditors (CIIA) Core Competency Framework, the Internal Audit Apprenticeship and the requirements of the Public Sector Internal Audit Standards to identify opportunities for collective and individual improvement and development. The results will inform a training, development, skills and succession planning project in 2019/20 (see Future Developments below).

We also successfully recruited two Trainee Auditors, one of whom is the first in our team to embark on the new Internal Audit Apprenticeship. One of our Client Audit Managers was the public sector representative on the CIIA / Barclays Learning and Development Forum that developed the Apprenticeship Standard in the first instance.

Service developments delivering cost effectiveness and resilience, while informing decision-making

Skilled team members to meet the ever-changing demands on a modern internal audit service

"A professional and friendly service which will provide value..."

First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2018/19 we have received 100% satisfactory or higher feedback rating from our customers; an improvement on the previous year.

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

"Auditor astute and approachable. A number of insightful queries regarding process and record keeping were made to inform the assessment."

"Excellent service conducted by experienced Auditor with a wealth of experience who understood our processes and systems."

"A professional and friendly service which will provide value to the strategic direction of ICT at Hertsmere"

"Auditor was really good during the process, asking us questions and probing us when necessary. It was good to complete this to make sure we are following the correct processes and to have formal confirmation that we are doing everything that we should be doing to a high standard."

"The service received was professional and took the time to investigate the issues surrounding this project. At the same time officers were easy to communicate with putting me at ease with the process. At all times I felt that there was a genuine desire to identify any issues and concerns without being onerous or overbearing to reach a predetermined outcome. There was no prejudgement of the situation and I had plenty of opportunities to ask for clarifications throughout the process."

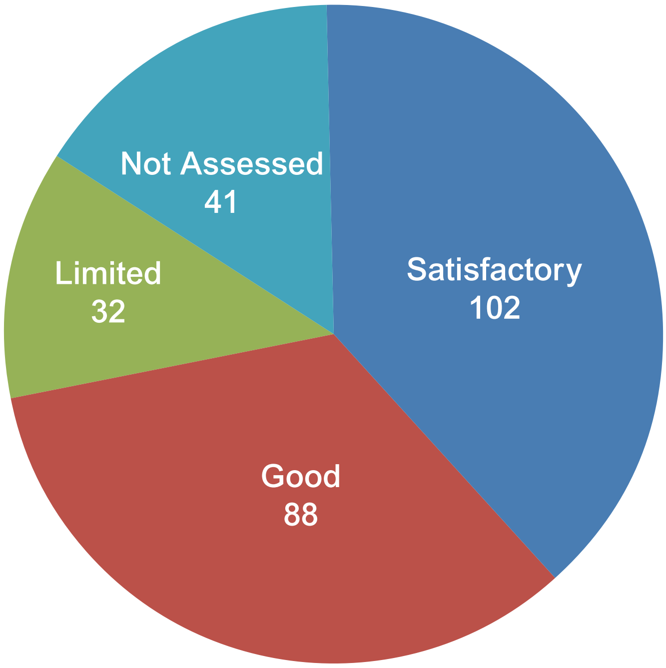
"Outstanding service. Thank you for the advice and help. Very happy with the service provided. 'The auditor' gave excellent advice which was very helpful. Thank you"

Performance - Outcomes

SIAS completed 263 assurance and other projects to final report stage, giving the assurance opinions and recommendations detailed in the charts below.

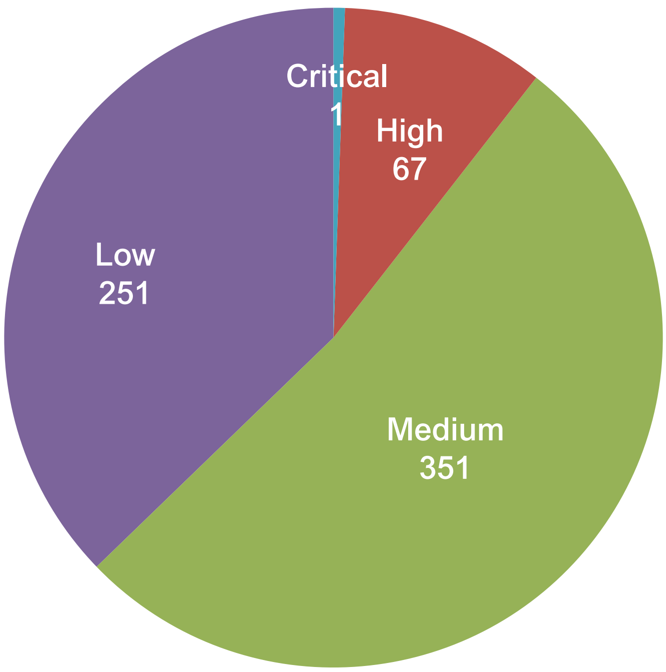
For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2018/19



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

Figure 4: Prioritisation of Recommendations 2018/19



263 assurance and other projects identifying 670 recommendations

Performance Indicators

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

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

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2018	Actual as at 31 March 2019	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	94%	96%	Despite continued resilience challenges in year, the service achieved both of its targets.
Progress against plan: audits issued in draft by 31 March	95%	93%	95%	
Client satisfaction	100% client satisfaction questionnaires returned at ‘satisfactory overall’ level or above	97%	100%	Continued good performance in this area

Financial Performance of SIAS

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

Appendix A sets out the summary financial position at 31 March 2019. The partners determined that the service should aim to build a reasonable surplus and to consider the financial position of the service on a three-year rolling basis.

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

Future Developments

The SIAS Service Plan for 2019/20 is divided into four themes focusing on People, Performance, Position and Process. This facilitates undertaking service development in a structured and methodical way to achieve our vision of being an exemplar shared service at the leading edge of audit service delivery.

The SIAS Management Team held an away afternoon in April to develop the main ideas in our 2019/20 Service Plan. A number of 'quick wins' were identified, as well as three projects that we would like to complete ahead of our next peer review required by the end of 2020. The projects centre on the following:

a) Training, skills, development and succession planning (People theme),

b) Work allocation (Performance theme), and

c) Updating and improving the SIAS profile and content on partner intranet and websites, as well as Schools Grid (Position theme)

The changing face of service delivery within Local Government also presents the Service with new opportunities, challenges and demands and a need to provide higher levels of consultancy advice, evolve our knowledge and skills, and apply new approaches and techniques to the work at hand. The increased use of, or access to, data analytics tools is likely to become a key feature in the work of the Service going forward. The use of these tools will allow the Service to facilitate delivery of the widest coverage of process driven areas.

Our Board Members

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

In 2018/19, our Board members were as follows:

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

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Appendix A - SIAS cost centre: revised budget against outturn 2018/19

	Budget £	Outturn £
Salaries & Salary Related	1,054,410	980,670
Partner / Consultancy Costs	95,875	137,313
Transport	8,500	7,313
Supplies	18,483	9,890
Office Accommodation Cost	17,005	17,005
Total expenditure	1,194,273	1,152,191
Income	1,209,339	1,220,711
Net (surplus) / deficit	**(15,066)**	**(68,520)**

Appendix B - Definitions of Assurance Levels and Priority of Recommendations

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.

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

Agenda Item 8

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