New Forest
DISTRICT COUNCIL

NOTICE OF MEETING

Meeting:	**AUDIT COMMITTEE**
Date and Time:	**FRIDAY, 26 JANUARY 2018, AT 9.30 AM***
Place:	**COMMITTEE ROOM 1, APPLETREE COURT, LYNDHURST**
Telephone enquiries to:	**Lyndhurst (023) 8028 5000 023 8028 5588 - ask for Andy Rogers E-mail: andy.rogers@nfdc.gov.uk**

PUBLIC PARTICIPATION:
***Members of the public may speak in accordance with the Council's public participation scheme:**
(a) immediately before the meeting starts, on items within the Committee's terms of reference which are not on the public agenda; and/or
(b) on individual items on the public agenda, when the Chairman calls that item.
Speeches may not exceed three minutes. Anyone wishing to speak should contact the name and number shown above.

Bob Jackson
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This Agenda is also available on audio tape, in Braille, large print and digital format

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AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 25 August 2017 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. EXTERNAL AUDITOR GRANT CLAIM CERTIFICATION (Pages 1 - 8)

To note the certification of Claims and Returns Annual Report 2016/17.

5. 2018 EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER (Pages 9 - 30)

To receive the external auditor’s annual audit letter from the year ended 31 March 2017.

6. TREASURY MANAGEMENT STRATEGY 18/19 (Pages 31 - 52)

To consider the proposed Treasury Management Strategy for 2018/19.

7. INTERNAL AUDIT PROGRESS REPORT AGAINST THE AUDIT PLAN Q3 (Pages 53 - 58)

To consider the internal audit progress report against the Audit Plan 2016/17.

8. INTERNAL AUDIT - FUTURE SERVICE DELIVERY (Pages 59 - 74)

To note proposals for future internal audit service delivery.

9. STRATEGIC RISK REGISTER (Pages 75 - 82)

To consider the draft Strategic Risk Register.

10. AUDIT COMMITTEE WORK PLAN (Pages 83 - 84)

To consider the Audit Committee’s Work Plan.

11. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:	**Councillors:**	**Councillors:**
	A D O'Sullivan (Chairman)	J D Heron
	J G Ward (Vice-Chairman)	Mrs E L Lane
	A R Alvey	R A Wappet
	W G Andrews	C A Wise

Certification of claims and returns annual report 2016-17

New Forest District Council

26 January 2018

Ernst & Young LLP

Building a better working world

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Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

Date: 19 December 2017
Ref: NFDC/Claims/2016-17
Direct line: 02380 382099
Email: HThompson2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2016-17 New Forest District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on New Forest District Council's 2016-17 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

We checked and certified the housing benefits subsidy claim with a total value of £41,741,865. We met the submission deadline. We issued a qualification letter, details of the matters identified are included in section 1.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the PSAA in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on 26 January 2018.

Yours faithfully

Helen Thompson
Associate Partner
Ernst & Young LLP
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Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£41,741,865
Amended/Not amended	Unamended
Qualification letter	Yes
Fee – 2016-17 Fee – 2015-16	£4,253 £5,491

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. We identified one such error and carried out extended testing in this area.

We have reported the extrapolated value of the error in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The issue reported was:

- testing of the initial sample of Rent Allowances identified one case (total value £29.35) where benefit had been overpaid as a result of the Authority miscalculating the claimant's average weekly income. Extended testing was required. This identified four further cases where benefit had been had been underpaid, four further cases (total value £133.75) where benefit had been overpaid, one case where benefit had been both overpaid and underpaid (total value £17.59) as a result of similar errors. The extrapolated error of benefit overpaid in our qualification letter was £8,618.

The Authority has agreed to correct all impacted cases through their benefits software in 2017-18 to ensure the correct payments have been made to claimants.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the PSAA in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	4,253	4,253	5,492

3. Looking forward

2017-18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017-18 is £5,492. This was set by PSAA and is based on final 2015-16 certification fees.

Details of individual indicative fees are available at the following web address: https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

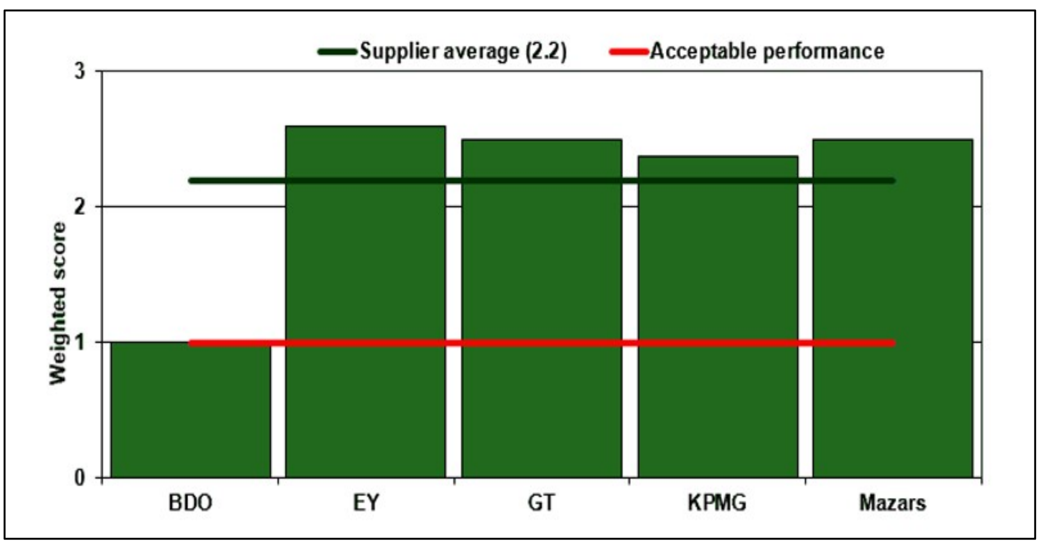
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Financial Officer before seeking any such variation.

2018-19

From 2018-19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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Ernst & Young LLP

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New Forest District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Building a better
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Contents

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

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

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

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

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

Executive Summary

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Executive Summary

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

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

Area of Work	Conclusion
Opinion on the Council's: ▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▸ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Financial Report 2016/17.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▸ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▸ Public interest report	We had no matters to report in the public interest.
▸ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▸ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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

As a result of the above we have also:

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

In November 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

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

Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 August 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

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

As auditors we are responsible for:

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

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 August 2017.

Our detailed findings were reported to the 25 August 2017 Audit Committee.

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

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	Our approach focused on: ▸ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error'; ▸ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; and ▸ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times. We found no issues to report.

Significant Risk	Conclusion
Valuation of housing stock Our review of the Council's draft financial statements showed that there was an 11.17% increase in the value of housing stock in 2016/17 compared to a 1.47% increase in 2015/16 and a 12.53% increase in 2014/15. Given that there has been a significant fluctuation in council house values over the last three years, we concluded that we needed to treat this as a significant risk and seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.	We found the Council was compliant with the 'Beacon Approach to Valuation' as set out in the Department for Communities and Local Government ('DCLG') guidance for valuers 2016. We recommended that in future years the current application of the 'Beacon Approach to Valuation' by the Council is revised in order to enhance its robustness and perceived accuracy.

Other Key Findings	Conclusion
Expenditure and funding analysis and comprehensive income and expenditure statement. Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented. This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.	Overall our audit work did not identify any issues with the revised Comprehensive Income and Expenditure Statement reported by the Council. However, we asked the Council to clarify in its annual financial report that the Expenditure and Funding Analysis is not a primary statement and that it is a supporting note to the CIES.

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

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We planned our procedures using materiality of £2,017,120. We have reassessed this based on the actual results for the financial year and have increased this amount to £2,051,380. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £102,569 (2016: £100,856).

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

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts.

- Related party transactions. Strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

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

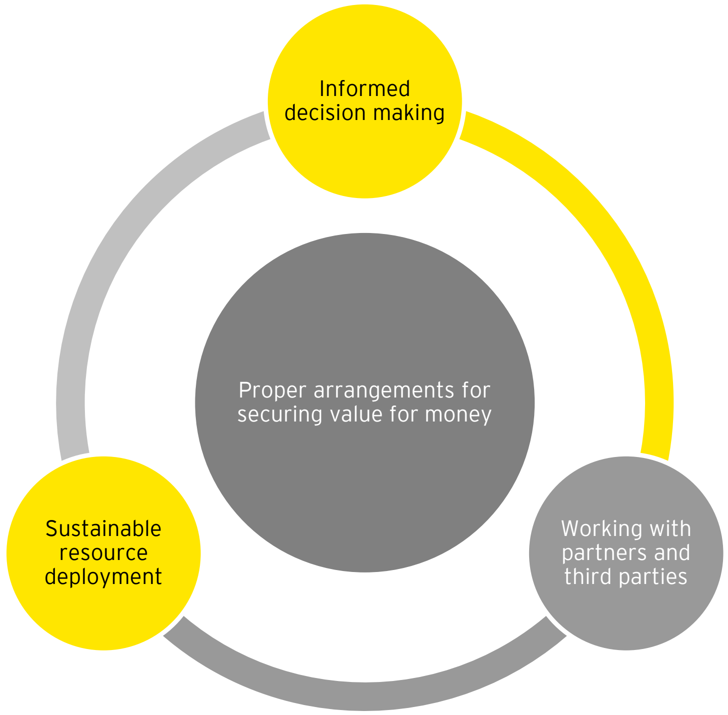
Value for Money

Value for Money

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

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

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



We identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 25 August 2017.

Significant Risk	Conclusion
Sustainable Resource Deployment – achievement of savings requirement and financial planning for the medium term The Council has calculated that it has an anticipated reduction in grant funding over the next three year period amounting to some £4.129 million (39% reduction from 2016/17). The summary position for the Medium Term Financial Plan (MTFP), which takes into account all funding and budget assumptions, identifies a: ‣ balanced budget for 2017/18; ‣ deficit for 2018/19 of £620,000; and ‣ cumulative deficit of £809,000 in 2019/20. The Council's Budget Stabilisation Strategy sets out, for each of the Council's Service Managers, a three year target equivalent to the originally anticipated £2.438m increase in costs. Other savings and income improvements are also expected to materialise over the period, resulting in total forecast savings of £4.129 million. However, there are risks around the delivery of savings and we will review the Council's arrangements for planning a sustainable financial future.	**Review of the progress made in achieving the planned budget and required savings for 2017/18** At 31 March 2017, the Council reported a £2.390 million surplus against a forecast budgeted deficit of £306,000, compared to a net expenditure budget of £19.265 million. In February 2016, the Cabinet approved the Council's Delivery Plan, linked to the 2016 – 2020 Corporate Plan, which outlined the need to close the £1.136 million budget deficit over the medium term period to 2020. The Council successfully delivered £1.579 million of savings through its service reviews in 2016/17. For 2017/18, the significant financial challenges continue as managers are currently updating service plans, including their year two and three saving projections to address the known gap from 2018/19 onwards. **Assessment of the robustness of financial plans for 2017/18 and in the medium term** The Council's medium term financial planning process is comprehensive and the figures in the plan can be agreed to detailed working papers with reasonable assumptions. The Council has made good progress in its medium term planning as it has further closed the funding gap since February this year. The forecast deficit for 2018/19 of £620,000 has been reduced to £143,000 and the forecast deficit for 2019/20 is lower at £447,000 in the latest MTFP approved by the Cabinet this July. The Council's financial plans appear to be robust in the medium term as the Council is successfully reducing its budget deficit, which at £1.300 million to 2022, is lower than the current level of Council's general fund reserves.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

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

Annual Governance Statement

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

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

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

Other Powers and Duties

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

Independence

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

Control Themes and Observations

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

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

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

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AUDIT COMMITTEE – 26 JANUARY 2018

TREASURY MANAGEMENT STRATEGY REPORT 2018/19

1. INTRODUCTION

The Prudential Code for Capital Finance in Local Authorities (The Code) was introduced with effect from 1 April 2004. The Code gives the Council greater freedom for future capital investment plans but requires it to set and monitor prudential indicators to ensure that its plans are affordable and sustainable.

This report outlines and recommends the Council's prudential indicators for 2018/19 – 2020/21 that relate to the Treasury Management Function and sets out the expected treasury operations for that period.

A further report detailing the prudential indicators for 2018/19 – 2020/21 relating to Capital Expenditure will be included in a separate report to Cabinet on 7 February 2018.

2. POLICIES AND APPROVALS REQUIRED

2.1. Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three year period from 2018/19 to 2020/21. The day to day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

There are a number of target indicators but the indicator that must not be breached is the Authorised Limit for External Debt. This is the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.

This report has been prepared prior to the finalisation of the Capital Programme for 2018/19 and subsequent years. Therefore the target indicators may be subject to minor variation. Should any increase result in the likelihood of the approved Authorised Limit for External Debt being breached this will be reported at Cabinet in February 2018. Other indicators are targets only and minor adjustments will not be reported.

2.2. Investment Strategy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

The investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 5.

The above policies and parameters provide an approved framework within which officers undertake the day to day treasury activities.

This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

The Investment Strategy will take effect from 26 February 2018.

3. ENVIRONMENTAL IMPLICATIONS

3.1. There are no environment implications arising from this report.

4. CRIME AND DISORDER IMPLICATIONS

4.1. There are no crime and disorder implications arising from this report.

5. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report from 26 February 2018:

5.1. The Treasury Management Strategy 2018/19 to 2020/21 and the Treasury Indicators contained within Annex A.

5.2. That authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Director of Corporate Resources, as agreed in the Service Level Agreement, to manage all Council investments (other than the high yield investment portfolio) according to the risk assessment process in the Investment Strategy as appropriate.

TREASURY MANAGEMENT STRATEGY 2018/19 – 2020/21

1. INTRODUCTION

1.1. In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

1.2. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

1.3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

1.4. The Council has potentially large exposures to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2. EXTERNAL CONTEXT

1.5. The following paragraphs explain the economic and financial background against which the Treasury Management Strategy is being set.

1.6. Economic background

The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation (CPI) reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to

0.5% in November 2017. Since this point, CPI hit 3.1% in November 2017.

1.7. Credit outlook

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

1.8. Interest rate forecast

The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. LOCAL CONTEXT

1.9. On 31 December 2017, the Council held £144m of borrowing and £84.5m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast	31/03/17 Actual £m	31/03/18 Estimate £m	31/03/19 Forecast £m	31/03/20 Forecast £m	31/03/21 Forecast £m
General Fund CFR	3.3	5.7	15.5	26.7	35.7
Housing Revenue Account CFR	1.9	1.9	1.9	1.9	1.9
HRA Settlement	142.7	138.6	134.5	130.4	126.3
Total CFR	**147.9**	**146.2**	**151.9**	**159.0**	**163.9**
Less: External borrowing *	(144.1)	(139.8)	(135.5)	(131.2)	(126.9)
Internal (over) borrowing	**3.8**	**6.4**	**16.4**	**27.8**	**37.0**
Less: GF Usable reserves	(21.8)	(20.5)	(15.3)	(9.2)	(5.7)
Less: HRA Usable reserves	(29.2)	(25.6)	(20.1)	(18.9)	(17.7)
Less: Working capital	(11.6)	(7.4)	(7.4)	(7.4)	(7.4)
Resources for investments	**(62.6)**	**(53.5)**	**(42.8)**	**(35.5)**	**(30.8)**
New borrowing (or investments)	**(58.8)**	**(47.1)**	**(26.4)**	**(7.7)**	**6.2**

* shows only loans to which the Council is committed and excludes optional refinancing

1.10. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.11. The CFR is showing a potential need for borrowing in the future as the Council looks to roll out its commercial and residential investment strategies, and at the appropriate time, the Council will consult with its treasury advisors on how best to service its borrowing, including the possibility of renewing maturing loans on the HRA. The level of usable HRA reserves is set to decrease over the period as the Council works towards achieving its latest acquisition and development strategy, as well as commencing with principal repayments on the settlement loan.

1.12. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19.

4. BORROWING STRATEGY

1.13. The Council currently holds £144 million of loans, a decrease of £0.2 million on the previous year, as a result of the HRA refinancing in

2012. The balance sheet forecast in Table 1 shows that the Council does not expect to need to borrow in 2018/19. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £206.4 million.

1.14. Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

1.15. Limits

The Council is required to put in place the following Prudential Indicators to control its limits on borrowing; these are operational and authorised boundaries for external debt, and the maximum HRA debt limit.

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 2: Operational Boundary	2017/18 Revised £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Total Debt	**185.4**	**191.2**	**198.2**	**203.1**

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 3: Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Total Debt	**200.7**	**206.4**	**213.5**	**218.4**

Maximum HRA Debt Limit

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council may not borrow more than this limit for HRA purposes. The 2017 Autumn statement lifted the borrowing cap by £1bn for Council's with the highest affordability pressures. Details are yet to be confirmed, and in any case, this

Council is not currently planning to seek further approvals to increase HRA borrowing beyond the previously set limit (based on the settlement payment plus the old Housing Subsidy Debt amount).

Table 4: HRA Debt Limit	2017/18 Revised £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Total	**155.5**	**155.5**	**155.5**	**155.5**

1.16. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the Council does not need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By internally borrowing, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

1.17. Sources of borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

1.18. Other sources of debt finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

1.19. Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

1.20. Short-term and variable rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

1.21. Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. INVESTMENT STRATEGY

1.22. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past

12 months, the Council's investment balance has ranged between £95.6 and £59.4 million.

1.23. Objectives

Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

1.24. Negative interest rates

If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

1.25. Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2018/19. This is especially the case for the estimated £40m that is available for longer-term investment. Approximately 73% (increased from 59% last year) of the Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, pooled property and equity funds, and secured bank bonds. Whilst the remaining cash is subject to bail-in risk, 61% of this balance is held overnight money market funds which are subject to a reduced risk of bail-in, 28% is held in certificates of deposit which can be sold on the secondary market, and 3% is held in overnight call accounts with banks to allow for liquidity. This diversification will represent a continuation of the new strategy adopted in 2015/16.

The Council has invested in further high yield investments by increasing its investments in pooled property and pooled equity funds, and by investing in pooled multi-asset funds.

The investments in pooled property, equity and multi-asset funds allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the funds' distributing share classes which pay out the income generated.

Although money can be redeemed from the pooled funds at short notice, the Council's intention is to hold them for at least the medium term. Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose.

Table 5: High yield investments capital value	Principal invested £m	Market value 31/12/2017 £m	Capital yield (per annum) %
Pooled Property Funds	6.05	6.13	-0.61
Pooled Equity Funds	3.00	3.18	4.61
Pooled Multi Asset Funds	2.00	1.99	-0.72
Total	**11.05**	**11.30**	**0.84**

As shown in Appendix B, without this allocation the weighted average return of the Council's cash investments would have been 0.57%; the allocation to high yielding investments has added 0.50% (£0.4m based on the cash balance at 31 December 2017) to the average interest rate earned by the remainder of the portfolio.

1.26. Investment limits

The maximum that will be lent/invested to/with any one organisation (other than the UK Government) will be £12 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 6: Investment limits	**Cash limit**
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Registered providers	£10m in total
Money Market Funds	£50% in total

1.27. Approved counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 7 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 7: Approved investment counterparties and limits						
Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**	**Registered Providers Unsecured**	**Registered Providers Secured**
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£12m 50 years	£6m 20 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years	£6m 10 years
AA-	£6m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years	£6m 10 years
A+	£6m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years	£6m 5 years
A	£6m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years	£6m 5 years
A-	£6m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years	£6m 5 years
None	£1m 6 months	n/a	£12m 25 years	n/a	£6m 5 years	£6m 25 years
Pooled funds	£12m per fund					

This table must be read in conjunction with the notes below

1.28. Credit rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

1.29. Banks unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

1.30. Banks secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

1.31. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 30 years.

1.32. Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

1.33. Registered providers

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

1.34. Pooled funds

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

1.35. Risk assessment and credit ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

1.36. Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

1.37. Specified investments

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

1.38. Non-specified investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 8 below.

Table 8: Non-specified investment limits	**Cash limit**
Total long-term investments	£40m
Total investments without credit ratings or rated below [A-] (except UK Government and local authorities)	£30m
Total non-Sterling investments	£0m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£45m*

* Total non-specified investments is a limit in its own right, and is not meant to equal the aggregate of the limits for total long-term investments, and total investments without credit ratings or rates below A-.

1.39. Liquidity management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

6. NON-TREASURY INVESTMENTS

1.40. Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council is intending to purchase property for investment purposes and may also make loans and investments for service purposes, for example in equity investments and loans to the Council's subsidiaries.

1.41. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

7. TREASURY MANAGEMENT INDICATORS

1.42. The Authority measures and manages its exposures to treasury management risks using the following indicators.

1.43. Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed or invested will be:

Table 9: Interest rate exposures	2018/19	2019/20	2020/21
Upper limit on fixed interest rate investment exposure	£40m	£40m	£40m
Upper limit on variable interest rate investment exposure	£120m	£120m	£120m
Upper limit on fixed interest rate borrowing exposure	£206.4	£213.5	£218.4
Upper limit on variable interest rate borrowing exposure	£206.4	£213.5	£218.4

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

1.44. Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 10: Maturity structure of borrowing	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

1.45. Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 11	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£40m	£40m	£40m

8. OTHER ITEMS

1.46. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

1.47. Policy on the use of financial derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

1.48. Policy on apportioning interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the average % Local Authority 7 day rate.

1.49. Investment training

The needs of Hampshire County Council's treasury management staff delivering services, for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

CIPFA's Code of Practice requires that the Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 29 November 2017, which gave an update on treasury matters. A further Arlingclose workshop has been planned for November 2018.

1.50. Investment advisers

The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose.

1.51. Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £206.4 million.

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B – Existing Investment & Debt Portfolio Position

Investments	Asset value on 31/07/2017 £m	Asset value on 31/12/2017 £m	Average Rate/Yield on 31/12/17 %	Average Life on 31/12/17 years
Short term Investments				
- Banks and Building Societies:				
- Unsecured	15.6	9.1	0.41	0.17
- Secured	10.9	7.1	0.76	0.33
- Money Market Funds	5.5	14.0	0.34	0.01
- Local Authorities	18.0	30.5	0.58	0.44
- Corporate Bonds	1.5	0.0	n/a	n/a
	51.5	**60.7**	**0.52**	**0.29**
Long term investments				
- Banks and Building Societies:				
- Secured	10.5	10.5	0.76	1.68
- Local Authorities	3.0	2.0	1.00	2.14
	13.5	**12.5**	**0.80**	**1.76**
High yield investments				
- Pooled Property Funds*	4.1	6.1	4.43	n/a
- Pooled Equity Funds*	2.1	3.2	4.82	n/a
- Pooled Multi Asset Funds*	2.0	2.0	3.13	n/a
	8.2	**11.3**	**4.31**	**n/a**
TOTAL INVESTMENTS	**73.2**	**84.5**	**1.07**	**0.54**
Increase/ (Decrease) in Investments £m		11.3		

	£m	%
External Borrowing		
PWLB	(144.0)	(3.12)
Investments		
Total Investments	84.5	1.07
Net Debt	**(59.5)**	**(6.03)**

* Yield represents the average of each investment's most recent dividend payment as a percentage of the asset value.

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AUDIT COMMITTEE – 26 JANUARY 2018

PROGRESS AGAINST THE 2017/18 AUDIT PLAN AND HIGH PRIORITY RECOMMENDATIONS

1. INTRODUCTION

1.1. The purpose of this report is to inform members of the Audit Committee of progress made in delivering the 2017/18 audit plan, which was approved in March 2017. This report also provides an update on the progress with implementing high priority, overdue audit recommendations.

2. RESOURCES

2.1 Interim coverage for the vacant Principal Auditor position has been provided by the Group Audit Manager from the Southern Internal Audit Partnership (SIAP) since September 2017, to the Council and its' audit partners, whilst the future audit provision has been reviewed.

2.2 Internal audit have provided additional Senior Auditor support to the Council's audit partners from September 2017 and have also provided ICT Audits to Poole Borough Council and Rushmore Borough Council, generating an income to the Council.

2.3 One Auditor and the Information Assurance Officer/ICT Auditor have both recently left the Council. The Fraud and Compliance Officer has moved to a new team within the Council from January 2018.

3. INTERNAL AUDIT PLAN 2017/18 PROGRESS

3.1. Appendix 1 shows the progress made against the 2017/18 internal audit plan to January 2018. Progress is demonstrated by recording the current status of each audit assignment, the audit opinion and a summary of the number of recommendations made.

3.2. There was a significant proportion of 2016/17 audit reviews carried forward into 2017/18 (10 NFDC audits and a similar number for our partners) which restricted delivery of the 2017/18 audit plan in the first half of the year. All of this work has now been completed.

3.3. The carry forward audits, resource commitments to the partners and recent staffing changes have resulted in a resource shortfall. In order to deliver the 2017/18 audit plan by the end of March, match the plan to the available resources and take account of organisational developments, some rationalisation of the audit plan (Appendix 1) is required. The proposed plan changes are:-

- Business Continuity and Emergency Planning – A revised plan of action, timescales and responsibilities is being developed by the service and will be brought to the Executive Management Team for approval in Quarter One 2018. Defer the audit until the action plan has been implemented and become embedded.

- Domestic Refuse, Commercial Waste and Recycling (including special collections, garden waste and street cleansing) - The Council are involved in the current review of waste arrangements within Hampshire and the Isle of Wight. In addition, the new Service Manager for Waste & Transport will not commence employment until February 2018. It is proposed to defer the audit to enable the outcomes of the review to be taken into account.
- Defer the two ICT audits (due to staff changes) and commission the SIAP to complete assurance mapping on the ICT provision in order to contribute towards the annual Internal Audit Opinion for 2017/18 and inform future ICT audit plans.
- Electoral Services; Caretakers, Office Cleaning & Building Security; and Public Conveniences – defer to future years as assessed as lower risk.

3.4. Future audit coverage is being risk assessed and the proposed audit plan will be discussed and developed with Service Managers during February and will be brought to the next Committee meeting (23 March 2018) for comment and approval.

4. PROGRESS ON HIGH PRIORITY RECOMMENDATIONS

4.1. Progress on the implementation of high priority recommendations is monitored and any uncompleted recommendations are reported to Audit Committee. Currently the following high priority recommendations are outstanding;

- Payment Card Industry Data Security Standards (PCI DSS) compliance
  Update: The Council are working with the relevant partners to ensure the upgrade of chip and pin devices by March 2018 are PCI DCC compliant. Associated policies and procedures are being reviewed for compliance. All new areas where card payments are taken, for example car parking payment terminals, are assessed for PCI DSS compliance prior to implementation.

  There are elements of Agresso that are not PCI DSS compliant and there is a project in place to assess the most effective way to update the system and gain PCI DSS compliance. It was anticipated that the new guidance documents from the PCI Security Standards Council on voice-over-IP installations (telephone systems), due to be released mid-2017 may have resulted in significant changes to compliance requirements. This guidance will not now be released therefore the project to move to using Microsoft Office 365 during 2019 will include replacing the current telephony system and address the PCI DSS issue.

- Business Continuity
  To ensure that all business units, that are deemed to have Critical Activities, have up to date Business Continuity Plans
  To ensure Disaster Recovery Plans are created for each Critical System
  High level of responsibility needs to be taken for creating and implementing business continuity plans and ensuring they are kept up to date

  Update: Responsibility for Business Continuity has been reassigned and the responsible officer has recently completed a relevant training course. A revised plan of action, timescales and responsibilities will be developed and brought to the Executive Management Team for approval in Quarter One 2018.

5. FINANCIAL IMPLICATIONS & CRIME AND DISORDER IMPLICATIONS

5.1. There are no direct implications arising from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

6. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

6.1. There are no matters arising directly from this report.

7. RECOMMENDATION

7.1. The Audit Committee note the content of the report and raise any further areas of assurance coverage that they require.

For Further Information Please Contact:
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Background Papers:
Internal Audit Plan 2017/18

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Appendix 1 -
2017/18 Internal Audit Plan

Auditable Areas	Est Days	Q1	Q2	Q3	Q4	Assurance Level	No. of High Priority	No. of Medium Priority	No. of Low Priority	No. of VFM
Economy, Planning and Housing										
Development Control (inc planning enforcement and appeals)	15			FR		Reasonable	0	1	1	1
Forward Planning - Policy and Plans (inc S106/CIL)	10			FR		Reasonable	0	0	0	1
Conservation (listed/historic buildings) and Urban Design	10			FR		Substantial	0	0	0	2
Accounts Receivable	5									
Council Tax	5			FR		Reasonable	0	1	2	1
National Non Domestic Rates	5			FR		Substantial	0	0	0	0
Housing Benefits	5				WIP					
Landlord Services (Rents)	5				WIP					
Estates Management	15		FR			Reasonable	0	1	2	2
Resident Involvement	5		WIP	WIP	WIP					
Governance and Regulation										
Main Accounting System inc bank reconciliation	15									
Treasury Management	2			FR		Substantial	0	0	0	0
Accounts Payable	5				FR	Reasonable	0	1	2	1
Income	15			WIP	WIP					
VAT	10			FR		Reasonable	0	2	2	2
Procurement - Contract Management Audit	15			WIP	WIP					
Asset Management	10			WIP	WIP					
~~Electoral Services~~										
Community Safety (inc Anti Social Behaviour)	5				FR	Reasonable	0	1	1	0
Health and Safety	10			WIP	WIP					
Resources										
Payroll (inc NFNPA testing) (includes T&S, Members Allowances & Expenses)	25									
~~IT Audit (PSN/Security/DR) Network and Other Systems~~										
~~IT Audit (Inventory/Purchases/Contracts/Maintenance/Licences, etc)~~										
IT Audit - Assurance Mapping (new audit)										

Appendix 1 -
2017/18 Internal Audit Plan

Auditable Areas	Est Days	Q1	Q2	Q3	Q4	Assurance Level	No. of High Priority	No. of Medium Priority	No. of Low Priority	No. of VFM
~~Business Continuity and Emergency Planning (Assurance)~~										
Community Alarms/Lifelines/CCTV	15			WIP	WIP					
Operations										
Health and Leisure Centres	20			DR						
Health and Leisure Income Returns	10			DR						
Car Park Income Reconciliation	4									
Parking & Enforcement	15									
~~Caretakers, Office Cleaning & Building Security (LTH and ATC)~~										
~~Public Conveniences~~										
~~Domestic Refuse and Commercial Waste and Recycling - inc special collections, garden waste & street cleansing~~										
Vehicle and Plant Maintenance	15			WIP	WIP					
Transport & Fleet Management System	15			WIP	WIP					
~~Keyhaven Income Returns~~										
Trees (Council Owned)	10			WIP	WIP					

Final Report FR
Draft Report DR
Work in progress WIP

AUDIT COMMITTEE – 26 JANUARY 2018

FUTURE INTERNAL AUDIT SERVICE DELIVERY

1. Introduction

1.1 The Committee received a report at its meeting in August confirming the Council's interim audit arrangements and the need to review its internal audit delivery model from 1 April 18, following the resignation of the principal auditor, and unsuccessful recruitment for a replacement.

1.2 This report provides the committee with an update on the agreed approach for the delivery of internal audit with effect from 1 April 2018.

2. Background

2.1 The statutory requirement for a local authority to maintain an effective internal audit arrangement to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards, rests with the Service Manager – Finance & Audit.

2.2 A review was conducted by the Service Manager, and 2 best options identified;

1) Join the Southern Internal Audit Partnership (SIAP)
2) Contract management resource from another local authority.

2.3 The Portfolio Holder and Audit Committee Chairman were consulted during the review and subsequent consultation took place with the employee side. The Council's Executive Management Team has agreed with the recommendation of the Service Manager to proceed with option 1.

3. Future Internal Audit Service Delivery

3.1 The SIAP is constituted under S101 of the Local Government Act 1972, and as such NFDC can join the Partnership as a 'discharge of function'. The SIAP is hosted by Hampshire County Council.

3.2 The arrangement involves a 5 year contract, and the TUPE of the existing NFDC employed team (those who are spending 70% or more of their time undertaking audit work over a period of time) to HCC. The SIAP will consult with NFDC on an annual audit plan, and auditors will attend NFDC to conduct audits to deliver the plan. A dedicated Senior Audit Manager from the SIAP would be responsible for reporting to the NFDC audit committee.

3.3 The Head of the Partnership, Neil Pitman, has prepared a document to give an overview to the Committee on the SIAP; this is included as appendix 1.

3.4 The new service delivery model will remove non-audit functions from the internal audit service (such as the overviewing of contract payments and waivers) and will be more focused on the core audit activity that you would expect from an internal audit service. The new delivery will be based on a 500 day audit plan, which will be produced and brought back to this committee in March for consideration.

4. Financial Implications

4.1 The cost of the audit team for 2018/19, based on the pre-review structure, would have been budgeted at £189k. The new arrangement with the SIAP will result in a contract price of £150k PA, with the Council recharging £5k to the National Park Authority.

4.2 This resultant saving to the Council applicable from 1 April 18 is £44k. This saving has been built in to the 2018/19 budget, and has helped to achieve the Council's balanced budget for 2018/19.

5. NFDC's Current Partners

5.1 The partners that NFDC currently provide audit services to have been kept up to date with progress on the review, and have been informed that we will be terminating existing services with effect from 31 March 2018.

5.2 In all cases, the SIAP's details have been shared with our partners, and the option for them to also utilise the services of the SIAP has been left open to them.

6. Conclusion

6.1 The review to establish the most effective internal audit service for New Forest District Council, following the departure of the previous Principal Auditor has concluded that joining the Southern Internal Audit Partnership is the best option for the Council.

6.2 Work is under way to prepare the necessary documentation for the TUPE of the NFDC employed auditors to the SIAP and the on-boarding contract information which confirms the services to be delivered by the SIAP, to NFDC.

7. Recommendations

7.1 That the committee note the contents of this report and appendix 1.

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Southern Internal Audit Partnership

Assurance through excellence and innovation

An overview of the Southern Internal Audit Partnership

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Contents

1. The Southern Internal Audit Partnership

The Southern Internal Audit Partnership (SIAP) was established in 2012. The Partnership is hosted by Hampshire County Council and is one of the largest providers of public sector internal audit in the region.

Operating from our headquarters in Winchester (with a number of sub-offices across Hampshire and West Sussex), the SIAP currently employ 44 fte staff (Appendix 1) delivering approximately 7,500 audit days across a diverse portfolio of 25 public sector / third sector organisations (Appendix 2).

The SIAP brings together the professional discipline of internal audit, pooling expertise and enabling a flexible, responsive and resilient service to our partner and client portfolio.

To provide optimum benefits to our partners and clients, we work with management to improve their control environment, assisting in the achievement of their objectives. This is reflected through our ***'Vision'*** of:

'A collaborative Partnership delivering an innovative, customer focused service aligned to business needs and improved outcomes '

Our core values underpin the way we deliver our vision

Customer focus – to remain aware of the needs and requirements of all of our stakeholders in providing the optimum customer experience.

Working together – to build trust, develop common understanding and take collective action to improve our service.

Improvement & innovation – to be a modern and motivated organisation providing an efficient, cost effective and value adding service.

Value all – to treat all colleagues and customers with respect and understanding, valuing equality and diversity in all of our pursuits.

Quality – at the heart of everything we do. Our measure of quality is customer satisfaction and our goal is to provide a service that meets or exceeds those expectations.

2. Benefits of joining the SIAP

At the Southern Internal Audit Partnership we recognise that the ability for organisations in the public sector to sustain a resilient, flexible, independent and effective in-house internal audit function is becoming an increasing challenge.

We strongly believe that the pooling of audit professionals into one cohesive entity overcomes such challenges, whilst providing greater opportunities and career development for audit professionals.

As a public sector provider our drivers are not focused on profit. Our objectives remain aligned to ensuring a quality, professional and value adding internal audit service; sharing best practice across the sector and maximising efficiencies and knowledge / understanding.

Some of the key benefits our existing partners enjoy being part of the SIAP include:

Resilience - The relative size of the SIAP provides resilience in both strength and depth to that otherwise experienced by smaller, stand-alone internal audit teams.

Flexibility - The SIAP operate with a multi-disciplinary pooling of staff capable of forming into teams to provide a seamless and responsive service in meeting our client's needs.

Qualified Staff - The SIAP prides itself on maintaining a pool of high calibre, personable professionals dedicated to providing a quality, modern, value adding service. Staff at all levels are appropriately qualified with extensive knowledge of auditing in a public sector environment.

Audit Specialisms - The SIAP benefit from the experience and knowledge of specialist in-house auditors in niche areas of expertise:

- We have our own **IT auditors** who are experienced in covering all aspects of established and emerging technologies.

- We have a team of trained **fraud specialists** who carry out a range of proactive fraud work and reactive investigatory work as required by our customers.

- We have staff experienced and qualified in **procurement and contract audit** who carry out reviews of major capital projects and revenue contracts.

Experience - All of our staff have significant experience and understanding of the requirements of auditing in a public sector environment. Our staff are fully conversant with relative industry standards and practices.

Quality - Our measure of quality is customer satisfaction and our goal is to provide a service that meets or exceeds those expectations.

Our aim is to provide a service that remains responsive to the needs of our customers and maintains consistently high standards. Some of these measures are outlined in fig 1.

Fig 1.

Professional Standards –The SIAP have been externally assessed as compliant with the Public Sector Internal Audit Standards. In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the SIAP.

The assessment included review of a wide range of documentary evidence; interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the SIAP staff.

In considering all sources of evidence the External Assessment Team concluded:

*"It is our view that the Southern Internal Audit Partnership generally conforms to **all principles** within the Standards. **This performance is within the top decile of EQA reviews we have performed**. This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.*

*It is therefore appropriate for the Southern Internal Audit Partnership to say in reports and other literature that it **"conforms to the IIA's professional standards"** and that its **"work has been performed in accordance with the International Professional Performance Framework (IPPF)"***

The SIAP are also accredited under British Standard BS EN ISO 9001:2008, the international quality management standard.

3. Additional benefits

Constitution – the Southern Internal Audit Partnership is constituted under S101 (5) of the Local Government Act 1972. As such those organisations joining the Partnership do so as a 'discharge of function' and therefore negate the requirement to undergo costly and resource intensive procurement / tendering exercises.

Governance - The governance of the SIAP affords each participating Council membership of the Key Stakeholders Board. The Board meets bi-annually (minimum) and is constituted by each organisations S151 officer, providing the opportunity to engage in performance reporting, business planning, resourcing, updates, and future direction of the Partnership. An overview of the governance structure is provided at Appendix 3.

Value For Money - continuing value for money considerations on behalf of the organisation are provided through a biennial report to the Key Stakeholder Board benchmarking Partnership costs against a range of other market providers.

Staff development / progression – due to the relative size of the SIAP, the diverse nature of our client portfolio and the multi-disciplinary nature in which the partnership operate, the SIAP offers staff occasion to audit areas of local government and other public sector organisations they may not have otherwise had the opportunity to engage with. This has the dual benefit of broadening experiences at an individual level as well as an enhanced knowledge base to work more flexibly and with greater insight across the wider Partnership, to the benefit of those with which they are engaged.

Additional benefits are evident in enhanced opportunities for career progression given the size of the SIAP and its growing establishment as more organisations join the Partnership.

Best practice – the collaborative nature of the SIAP, coupled with its inclusive governance structure, ensures that best practice and key risks are shared and assessed across the Partnership, ensuring that each organisation benefits from this wider pool of knowledge and awareness.

Such benefits are also implicit within assignment reporting, through the multi-disciplinary nature of our staff who gain valuable experience and intelligence from a wide range of public sector disciplines to inform their day-to-day work across the Partnership's portfolio.

Additionally, to add value to our partner organisations and to share development ideas and best practice, the SIAP collaborate with nine other major Internal Audit Partnerships from across the Country. As a cohort, 'Audit Together' maintains an extensive pool of knowledge and experience in internal audit and represents the profession at a national level.

The collaboration affords the Southern Internal Audit Partnership to share intelligence with audit professionals across in excess of 100 public sector organisations including 58 local councils (Counties, Unitaries and Districts).

As a collaboration we meet at frequent intervals and provide our partner organisations with periodic bulletins 'An Internal Audit View' to share the most topical and pertinent internal audit issues for circulation to all relevant stakeholders.

Financial – indicative costs of joining the Partnership are discussed individually with each organisation, however, some additional savings / benefits that would be inherently realised include:

- As the SIAP have already attained accreditation, there will be no necessity for on-boarding council's to undertake an independent external assessment against the PSIAS (which all organisations must undertake by April 2018). Whilst cost can vary dependant on the size of the organisation and the body commissioned to undertake the external review, potential costs would reasonably expected to be £2k - £5k on top of audit staff, senior officer and member time and commitment;

- Dependant on organisational requirements with regard on-site presence, there may be opportunity to free desired desk space to complement corporate accommodation strategies;

- Access to wider training resources would be available at no extra cost through the Partnership's membership of the CIPFA Better Governance Forum; County Chief Auditor Network; and Home Counties Audit Groups;

- The Southern Internal Audit Partnership has recently facilitated a coordinated Member training programme open to Audit Committee members from across all partners within our client portfolio. This was provided at no additional cost to partner organisations and enabled the opportunity for Members to benchmark, network and discuss their role and approach. This particular event included a guest speaker from CIPFA ; and

- Financial and opportunity savings that would otherwise be incurred in a recruitment and/or tender procedure (as alluded to in Section 3 - *'Constitution'* Page 6).

Approach to Fraud & Corruption – the changing context in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks create a pressing need for a new approach to tackling fraud perpetrated against local government.

The Southern Internal Audit Partnership work with organisations with which they are engaged in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the organisation's Anti Fraud & Corruption Policy and Response Plan.

Whilst the established process to reactive fraud assists organisations in appropriately responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are explored to understand, prevent and detect fraud risks across any organisation.

Many of the aspects contributing to an effective proactive approach to fraud risk management are implicit within the Southern Internal Audit Partnership's established processes. This is demonstrated through our dedicated and qualified fraud team, the tools to which they have access and our participation in national and local fraud collaboration groups.

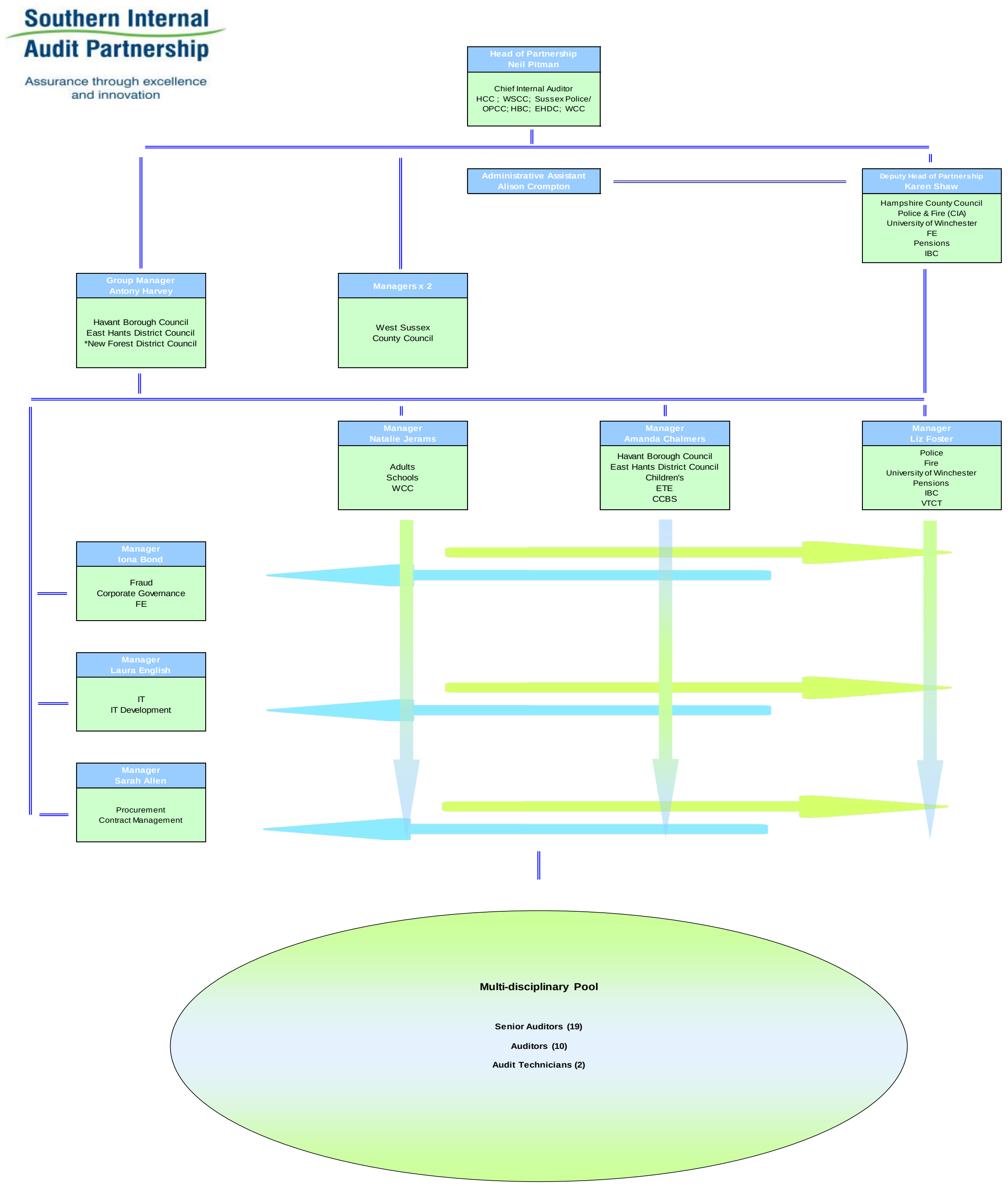
Building on intelligence from such collaboration and through discussions locally within organisations we are able to form a fraud risk register from which our proactive fraud activity is planned.

Our fraud work culminates in an annual report outlining the year's activities and results which is presented to Senior Management and those charged with governance alongside the Chief Internal Auditor's Annual Report & Opinion.

Appendix 1

Southern Internal Audit Partnership

Organisational Structure



Qualifications

Head of Partnership	MSc, CMIIA, CCAT, CCIP
Deputy Head of Partn	CIPFA
Group Manager	CIPFA
Audit Managers	Minimum CMIIA / CCAB (QICA / CISA for IT specialism)
Senior Auditors	Minimum PIIA / MAAT - many hold higher level qualification (MIIA / CCAB)
Auditors	Minimum PIIA / MAAT (one auditor currently studying CISA due to IT specialism)
Technicians	Minimum PIIA / MAAT

Additionally 4 members of the Partnership hold the CIPFA Certificate in Investigatory Practice for fraud and irregularity reviews

*Temporary reduction in client portfolio to accommodate NFDC commitments

Appendix 2

Southern Internal Audit Partnership Portfolio

Host Partner:	Hampshire County Council
Key Stakeholder Partners:	Havant Borough Council East Hampshire District Council Winchester City Council Hampshire Fire & Rescue Authority Hampshire Office of the Police & Crime Commissioner Hampshire Constabulary West Sussex County Council **New Forest District Council**
External clients:	Hampshire Pension Fund Sussex Pension Fund Sussex Office of the Police & Crime Commissioner Sussex Police Force Lymington & Pennington Town Council Chichester Harbour National Park Authority
	Charitable Organisations VTCT Hampshire Cultural Trust
	Higher Education Institutions University of Winchester
	Further Education Institutions and Sixth Form Colleges Eastleigh; Highbury; Isle of Wight College; Itchen; Portsmouth; and Queen Mary College (QMC)

Appendix 3

SIAP – Governance Structure

The governance of the Southern Internal Audit Partnership (SIAP) affords each participating organisation membership of the Key Stakeholders Board. The Board meets bi-annually (minimum) and is constituted by each organisations S151 officer.   There is currently no Member representation within the governance of the SIAP

Southern Internal Audit Partnership - Governance Structure

Strategic Partnership Board

Section 151 Chief Finance Officers (or delegated officer) from the Strategic Partner (HCC)

Strategic decision making focussing on the direction and growth of the work of the Internal Audit Partnership, new business and issue resolution

Head of Internal Audit Partnership

Responsible for operational delivery managing the day to day requirements of the Internal Audit Partnership including staffing, financial management, delivery, quality and client liaison

Southern Internal Audit Partnership

Delivering the Audit Functions for each Partner, SIAP Clients and Existing External Clients

SIAP Clients
External – not key stakeholders

Key Stakeholder Board

Section 151 Chief Finance Officers (or delegated officer) for each Key Stakeholder

Performance reporting and review, audit plan approval and review, Business Plan approval and resourcing.

Membership:

Winchester City Council
East Hampshire District Council
Havant Borough Council
Hampshire County Council
Hampshire OPCC
Hampshire Constabulary
Hampshire Fire & Rescue Service
West Sussex County Council
New Forest District Council

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ANNUAL RISK AND INSURANCE UPDATE REPORT

1. INTRODUCTION & PURPOSE

1.1 The Council's risk management framework is made up of a number of elements largely embedded in existing processes. In addition to strategic risk management, illustrated through the strategy and strategic risk register, it includes work place health and safety, ICT disaster recovery, business continuity planning and operational risk management including the provision of third party insurance cover and claims handling.

1.2 In terms of the latter the council spends in excess of £600,000 per annum on insurance over a number of policies types including casualty, motor, property and various indemnities.

1.3 The purpose of this report is to provide the Audit Committee with an opportunity to review the strategic risk register and to receive an update on the number and nature of claims over the last five years in order to assess the council's overall performance in this area.

2. RISK MANAGEMENT

2.1 The revised strategic risk register (Appendix 1) was approved by Cabinet in November 2016 and summarises the most significant risks to the delivery of Our Corporate Plan and the proposed actions to mitigate these risks. The mitigation offered is closely aligned to portfolio resource and service plans and in some cases relies on working with partners to help achieve the objectives. Other service specific risks and their analysis are considered in individual service risk registers.

2.2 The strategic risk register is reviewed and updated, where necessary, annually with the Audit Committee considering if the risks and mitigation captured still adequately reflect the current position. The register now needs to reflect the new cabinet structure and work will be undertaken to assess any arising strategic risks with the intention of presenting this to the Audit Committee in March 2018.

3. INSURANCE POLICIES

3.1 The council's main classes of insurance are with multiple insurers as set out in the table below. The existing arrangements were agreed in 2015 as part of the Hampshire collaborative procurement which is now in the third year of a three year contract with an optional two year extension, on a year by year basis. This extension has been agreed for 2018/19.

Class of Insurance	Insurer
Property Damage/Business Interruption	Allianz
Property Owners	Allianz
Property Damage/Business Interruption (Right to buy)	Ocaso
Computer	Allianz

Terrorism	Catlin
Combined (Employers) Liability	QBE
Official's Indemnity	QBE
Professional Indemnity	QBE
Motor	QBE

3.2 Fidelity guarantee, personal accident cover and engineering inspection continues to be provided by Zurich Municipal who also place policies for Marine and Vessels on our behalf with third party insurers (Willis Marine and Navigators & General).

3.3. The annual cost of these policies for 2017/18 was £638,399.

4. INSURANCE CLAIMS

4.1 The council continues to perform well in terms of the number and repudiation rate for insurance claims. The tables in Appendix 2 provide a summary of the number of claims for each policy type over the past five years. Total cost of claims includes deductibles payable by the council and any payments made by the insurer in the form of settlement to the claimant and legal costs, also payable by the insurers. Due to the resolution times of claims and settlements being made the total costs are not necessarily reflective of the final positions.

4.2 Two claims were scheduled for court this year, with NFDC as the defendant. Both cases were struck out of court ahead of the hearing.

5. RENEWAL 2018/19

5.1 The annual insurance renewal is currently in process for 2018/19. The Insurance Act, that came in to place in 2016, places the onus firmly on the policy holder to obtain information from senior management, services and individuals to advise of anything happening in their service area that could impact our insurance arrangements and/or affect our presentation of risk.

5.2 EMT and Service Managers have been asked to consider any issues or changes that are likely to have a bearing on our arrangements including alternative service delivery models, the establishment or consideration of trading companies and any other major changes to responsibilities or service delivery in the past 12 months or planned over the next 12 months. These will be notified to the insurers as part of the renewal.

5.3 The insurers must also be notified of material changes occurring during the policy.

6. FINANCIAL IMPLICATIONS

6.1 The rate of Insurance Premium Tax (IPT) was increased by 2% in June 2017 to 12% and the renewal process has highlighted growth in some policy areas, including Housing, both of which will result in increased costs for 2018/19.

6.2 In light of the change in discount rate, which has meant increased reserves of over £3 billion to claims on insurers books, the insurance industry and the council's brokers believe that limits of indemnity should now be reviewed for the first time in 10 years. Claims involving future care are affected by the discount rate change and there are now a few claims where reserves are over £25 million, although not for this council.

NFDC's indemnity limit for both Public and Employers Liability currently stands at £25 million with £40 million being proposed. EMT has agreed in principle to increase the indemnity limit which will inevitably result in an increased premium, estimated to be in the region of £20k.

6.3 Risk management and the prevention of claims arising as well as effectively defending claims received help manage the council's financial losses and the likelihood of premium increases.

7. RECOMMENDATIONS

7.1 That the Audit Committee

- Consider any changes necessary to the Strategic Risk Register;
- Note the insurance claims for the council over the past 5 years;
- Note the intention to increase the indemnity limits for Public and Employers liability claims.

For Further Information Please Contact:

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Background Papers

None

SUMMARY STRATEGIC RISK REGISTER – OUR CORPORATE PLAN 2016-2020

Portfolio	High Risk Areas Identified	Corporate Plan Priority	To Mitigate these risks the Council will:
Leader's	Economic and demographic conditions limit growth and employment in the district and local business fails to prosper	*Helping local business grow*	▪ Review with partners, including the New Forest Business Partnership, the best way to support local businesses in the future ▪ Work with the relevant Local Enterprise Partnerships (LEPs) to the benefit of the district ▪ Develop the new local plan
Finance & Efficiency	Continued pressure on council finances results in an inability to deliver priorities and services	*Living within our means* *Service outcomes for the community*	▪ Develop a Medium Term Financial Plan that delivers the Council's priorities ▪ Develop and undertake a programme of service reviews to ensure value for money and fundamentally assess delivery options ▪ Introduce stabilisation targets to manage budgets within existing resources ▪ Adopt an asset management strategy that optimises asset use and identifies revenue opportunities
Housing & Communities	Unable to provide more housing to help meet the needs of the district	*More homes for local people* *Working with others to achieve more* *Service outcomes for the community*	▪ Develop the new local plan identifying sites for housing development ▪ Develop the Housing Strategy to include meeting future needs through remodelling of existing stock, stock acquisition and building ▪ Continue to work with partner Registered Providers to deliver additional homes in the District
Health & Leisure	Health and wellbeing needs of residents are not met	*Service outcomes for the community*	▪ Fundamentally review and challenge existing health and leisure arrangements to maximise outcomes for the council and the customer in the longer term

Environment	Unable to protect the natural beauty of the coastline and safeguard local residents	*Protecting the local character of our place* *Service outcomes for the community*	▪ Continue to review and update a coastal maintenance programme identifying priority projects ▪ Undertake agreed coastal maintenance studies and work with elected members to identify alternative sources of fundi ng
Planning & Transportation	External pressure for development fails to recognise and protect the special and unique character of the New Forest	*Protecting the local character of our place*	▪ Develop and approve a new local plan which fully reflects the requirements of the National Planning Policy Framework

Appendix 2

Summary Public and Products Liability (Third Party)

Year	No of claims liable	No of claims not liable	Total Cost	Additional Information
13/14	7	12	£22,136.72	
14/15	3	7	£34,732.26	1 partly liable 2 open
15/16	2	4	£28,500.00	1 open
16/17	0 to date	1 not liable, 8 open	£0.00 to date	8 open
17/18 to date	0 to date	0 to date	£0.00 to date	8 open

Summary Employers Liability

Year	No of claims liable	No of claims not liable	Total Cost	Additional Information
13/14	1	0	£1047.30	
14/15	2		£23,624.00	1 open
15/16	1	1	£19,721.70	1 open
16/17	0 to date	0 to date	£0.00 to date	1 open
17/18 to date	0 to date	0 to date	£0.00 to date	3 open

Summary Housing Property

Year	No of claims liable	No of claims not liable	Total Cost	Additional Information
13/14	8	1	£47,579.41	
14/15	2	1	£123,347.64	Fire claims
15/16		2	£6920.78	Fire claim 2 open
16/17		2	£95,619.97	Fire Claim
17/18 to date			£0.00 to date	open

Summary General Property

Year	No of claims liable	No of claims not liable	Total Cost	Additional Information
13/14	0	1	£2000.00	
14/15	0	0	£0.00	
15/16	0	0	£0.00	
16/17		1	£1020.00	Weather related
17/18 to date		1	£6798.04	Weather related

Summary Other

Year	No of claims liable	No of claims not liable	Total Cost	Additional Information
13/14	1		£819.92	Officials indemnity
14/15		2	£6064.33	Marine
15/16	0	0	£0.00	
16/17	0	0	£0.00	
17/18 to date	0	1	£37,500.00	Marine

Summary Motor

Year	No of claims	Total Cost	Additional Information
13/14	69	£100,365.12	
14/15	90	£93,336.09	
15/16	72	£94,344.91	
16/17	50	£61,272.20	
17/18 to date	39 (to date)	£84,715.62 (to date)	

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AUDIT COMMITTEE – 26 JANUARY 2018

AUDIT COMMITTEE – WORK PLAN

1.0 WORK PLAN

1.1 This report details the draft work plan for the Audit Committee for 2018/19.

1.2 The work plan may evolve during the year, due to, for example, any changes in legislation, change relating to the External Auditor timetables, or new reports which need to be brought to the attention of the Committee.

2.0 FINANCIAL IMPLICATIONS

2.1 There are no financial consequences directly arising from this report.

3.0 EQUALITY & DIVERSITY, CRIME AND DISORDER AND ENVIRONMENTAL MATTERS

3.1 There are no equality and diversity, crime or disorder or environmental matters directly associated with this report.

4.0 RECOMMENDATIONS

4.1. That the Audit Committee considers and approves the Work Plan as appended and informs Officers of any requested changes.

For Further Information Contact:

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Audit Committee Work Plan 2018/19

DATE	WORK / REPORTS
23 March 2018	External Audit Briefing External Audit Progress Report Internal Audit Progress report against the audit plan Q4 (provisional) Internal Audit Charter & Internal Audit Plan RIPA Report
31 May 2018	Draft Annual Governance Statement Draft Financial Report Treasury Management Outturn Report Chief Internal Auditor’s Report and Opinion Bad Debts Write Off Strategic Risk Register
27 July 2018	Audit Committee Management Representation Letter Internal Auditor’s Report and Opinion (if not May) Local Code of Good Governance Review Annual Financial Report Audit Committee Annual Report Annual Governance Statement Audit Results Report
26 October 2018	Treasury Management Mid-Year Monitoring Report 2017/18 Procurement Rules, Regulations on Contract Standing Orders - Waivers
25 January 2019	External Audit Plan Summary Strategic Risk Register Treasury Management Strategy External Auditor – Annual Audit Letter Certification of Claims and Returns Annual Report Internal Audit Progress Against the Audit Plan