

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: THURSDAY, 31 MAY 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

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

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 23 March 2018 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. TREASURY MANAGEMENT OUT-TURN REPORT 2017/18 (Pages 1 - 12)

To consider the performance of the Treasury Management function, and the revised prudential indicators for 2018/19 – 2019/20.

5. LOCAL CODE OF GOOD GOVERNANCE REVIEW (Pages 13 - 20)

To receive the annual report of the Monitoring Officer and Chief Finance Officer.

6. DRAFT ANNUAL GOVERNANCE STATEMENT (Pages 21 - 28)

To consider the Draft Annual Governance Statement for 2017/18.

7. DRAFT ANNUAL FINANCIAL REPORT (TO FOLLOW)

To receive the Draft Annual Financial Report.

8. FINAL ACCOUNTS BAD DEBTS WRITE-OFF 2017/18 (TO FOLLOW)

To receive the Final Accounts Bad Debts Write-Off for 2017/18.

9. CONTRACT STANDING ORDERS RELATING TO PROCUREMENT WAIVERS 2017/18 (Pages 29 - 34)

To note the waivers to the Council's Contract Standing Orders relating to procurement, approved during the financial year 2017/18.

10. ANNUAL INTERNAL AUDIT AND OPINION REPORT 2017/18 (Pages 35 - 46)

To note the Annual Internal Audit and Opinion Report 2017/18.

11. AUDIT COMMITTEE WORK PLAN (Pages 47 - 48)

To consider the Committee's future Work Plan.

12. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors:

A D O'Sullivan (Chairman)
J G Ward (Vice-Chairman)
A R Alvey
W G Andrews

Councillors:

J D Heron
Mrs E L Lane
Miss A Sevier
C A Wise

AUDIT COMMITTEE 31 MAY 2018

CABINET 4 JULY 2018

COUNCIL 9 JULY 2018

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2017/18

1. PURPOSE

- 1.1. New Forest District Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.

2. SUMMARY

- 2.1. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.
- 2.2. The Council's treasury management strategy for 2017/18 was approved at a meeting of full Council in February 2017, and revised in December 2017. The Council has borrowed and invested sums of money and is therefore exposed 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.
- 2.3. Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.4. This annual report sets out the performance of the treasury management function during 2017/18, to include the effects of the decisions taken and the transactions executed in the past year.
- 2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
- 2.6. All treasury activity has complied with the Council's revised Treasury Management Strategy and Investment Strategy for 2017/18, and all relevant statute, guidance and accounting standards. In addition the Council's treasury advisers, Arlingclose, provide support in undertaking treasury management activities. The Council has also complied with all of the prudential indicators set in its Treasury Management Strategy.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2017/18.

Economic commentary

- 3.2. The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.
- 3.3. The inflationary impact of rising import prices, a consequence of the fall in Sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June 2017 and by the lack of clarity on Brexit. The Withdrawal Treaty is yet to be ratified by the UK Parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.
- 3.4. The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017. This action was significant as this was the first rate increase in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely, however at the meeting in May 2018 the MPC again voted by a majority of 7-2 to maintain Bank Rate at 0.5%.

Credit background

- 3.5. The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Council would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

- 3.6. Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.
- 3.7. In March 2018, following Arlingclose's advice, the Council removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for 2018/19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded and Arlingclose approves investment, the bank would be reinstated on the Council's lending list.

Local Authority regulatory changes

- 3.8. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. The Council will be preparing the Capital Strategy in line with the 2019/20 budget setting process.
- 3.9. In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

MiFID II

- 3.10. As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria were met which include having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority having at least one year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

3.11. The Council has met the conditions to opt up to professional status and has done so in order to maintain its previous MiFID status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

4. LOCAL CONTEXT

4.1. At 31 March 2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £146.0m, while usable reserves and working capital which are the underlying resources available for investment were £63.1m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m
General Fund CFR	(3.3)	(2.2)	(5.5)
Housing Revenue Account CFR	(1.9)	-	(1.9)
HRA Settlement	(142.7)	4.1	(138.6)
Total CFR	(147.9)	1.9	(146.0)
Less: Resources for investment	62.8	0.4	63.1
Net borrowing	(85.1)	2.3	(82.9)

4.2. The combination of overall CFR reducing due to the repayment of maturing Public Works Loan Board (PWLB) debt, and resources for investment increasing during 2017/18 resulted in decreased net borrowing.

4.3. The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2018 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m	31/03/18 Rate %
Long-term borrowing	(139.8)	4.3	(135.5)	(3.21)
Short-term borrowing	(4.3)	-	(4.3)	(1.80)
Total borrowing	(144.1)	4.3	(139.8)	(3.17)
Long-term investments	20.1	1.1	21.2	2.67
Short-term investments	29.4	7.3	36.7	0.75
Cash and cash equivalents	13.3	(8.1)	5.2	0.43
Total investments	62.7	0.4	63.1	1.37
Net borrowing	(81.4)	4.7	(76.7)	

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 4.4. The Council's internal borrowing policy is the reason for the variance between the positions shown in Tables 1 and 2. The movement that has taken place during 2017/18 in net borrowing shown in Table 1 has translated into a small rise in investment balances as shown in Table 2. Total borrowing in Table 2 has reduced during 2017/18 due to repayment upon maturity of PWLB loans. There has also been some movement between categories of investments, as the opportunity was taken to invest liquid funds in short-term options, such as with a registered provider.

5. BORROWING ACTIVITY

- 5.1. At 31 March 2018 the Council held £139.8m of loans, a decrease of £4.3m on the previous year, with the vast majority of the loan being in relation to the resettlement of the HRA in 2012/13. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m	31/03/18 Rate %	31/03/18 WAM* years
Public Works Loan Board	144.1	(4.3)	139.8	3.17	17.3
Total borrowing	144.1	(4.3)	139.8	3.17	17.3

* Weighted average maturity

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude accrued interest.

- 5.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 5.3. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources instead of taking out new borrowing. This strategy enables the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with the monitoring of internal and external borrowing.
- 5.5. During 2017/18 the Council repaid £4.3m of maturing PWLB debt, and did not replace this borrowing. This will reduce the future cost of interest payments on the Council's external debt.

6. INVESTMENT ACTIVITY

6.1. The Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the Council's investment balances have ranged between £60.8 and £100.6 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2017 Balance £m	Movement £m	31/03/2018 Balance £m	31/03/18 Rate %	31/03/18 WAM* years
Short term Investments					
- Banks and Building Societies:					
- Unsecured	7.0	(3.5)	3.5	0.41	0.05
- Secured	8.8	1.3	10.1	0.65	0.54
- Money Market Funds	12.3	(10.1)	2.2	0.46	0.00
- Local Authorities	12.0	4.0	16.0	0.72	0.31
- Corporate Bonds	2.6	3.5	6.1	0.67	0.70
- Registered Providers	-	4.0	4.0	1.25	0.85
	42.7	(0.7)	42.0	0.71	0.44
Long term investments					
- Banks and Building Societies:					
- Secured	11.8	(3.7)	8.1	0.77	2.61
- Local Authorities	3.0	(1.0)	2.0	1.00	1.89
	14.8	(4.7)	10.1	0.81	2.46
High yield investments					
- Pooled Property Funds**	3.2	3.0	6.2	4.52	n/a
- Pooled Equity Funds**	2.1	0.9	3.0	4.47	n/a
- Pooled Multi-Asset Funds**	-	2.0	2.0	3.66	n/a
	5.3	5.8	11.1	4.35	n/a
TOTAL INVESTMENTS	62.8	0.4	63.2	1.37	0.83

* Weighted average maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 31 March 2018.

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash and accrued interest.

6.2. Both the CIPFA Code and the government 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 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.

- 6.3. In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured investments, the Council further diversified into more secure and higher yielding asset classes during 2017/18. For example the proportion of investments to liquid funds (i.e. invested in money market funds and unsecured call accounts) was reduced and instead invested in short-term investments with greater security and higher rates of return (such as local authorities). Also £5.8m was added to externally-managed funds during 2017/18 as part of the investments targeting higher yields.
- 6.4. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.
- 6.5. Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 6.6. The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.7. The Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate increased by 0.25% to 0.50% in November 2017 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.
- 6.8. As a result, through lower bail-in exposure, investment risk was lowered, while the total average rate of return has increased by 0.06% from 0.96% during 2016/17 to 1.02% during 2017/18. The progression of credit risk and return metrics for the Council's investments managed in-house are shown in the extracts from Arlingclose's investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31.03.2017	AA	34%	234	0.64%
31.03.2018	AA	11%	302	0.73%
Similar LAs	AA-	53%	109	0.71%
All LAs	AA-	55%	35	0.63%

* Weighted average maturity

- 6.9. The Council has targeted a proportion of funds towards high yielding investments as shown in Table 4. Investments yielding higher returns will contribute additional income to the Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 6.10. The £11.1m portfolio of externally managed pooled multi-asset, equity and property funds generated an average total return of 3.42%, comprising 4.75% income return used to support services in year, and 1.33% capital loss. The capital loss has mainly been experienced in the

pooled equity funds; this was due to a market correction in January and February 2018.

- 6.11. 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.
- 6.12. As 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 are regularly reviewed.
- 6.13. 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.

7. FINANCIAL IMPLICATIONS

- 7.1. The outturn for debt interest paid (HRA) in 2017/18 matched the budget set at £4.47m.
- 7.2. The outturn for investment income received in 2017/18 was £0.82m on an average investment portfolio of £80.2m, therefore giving a yield of 1.02%. In the context of a 0.25% base rate for much of the year (increasing to 0.5% in November '17), and an original budgeted target of £0.51m, this is a positive outturn result for the Council.
- 7.3. The budget for interest payable (HRA) has been reduced within the base budget for 2018/19, in reflection of the first principal repayment made in 2017/18. The Interest earning target for 2018/19 has been set at a level comparable to the outturn for 2017/18, and assisted the Council in achieving a balanced budget.

8. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

- 8.1. Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.
- 8.2. In 2017/18, the Council purchased an investment property, at a total cost of £2.2m with a net yield of 6.23%. This was the first purchase of this type for many years, and was completed as a result of the Council's adoption of the Asset Investment Strategy in February 2017.

- 8.3. The Councils investment property holdings total £4.695m as at 31/03/18. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses, and fair value movements.

9. COMPLIANCE REPORT

- 9.1. The Council confirms compliance of all treasury management activities undertaken during 2017/18 with the CIPFA Code of Practice and the Council's approved revised Treasury Management Strategy. Some limits were revised in December 2017 due to the fact that investment balances were higher than predicted than when the Treasury Management Strategy was approved, which effectively resulted in a passive breach of the upper limit on variable interest rate investment exposure. Revisions were agreed in order to alleviate the upper limit on variable interest rate investment exposure, and reduce the risk of the Council experiencing the negative effect of higher inflation versus short-term deposit interest rates.
- 9.2. Compliance with specific investment limits, as well as the authorised limit and operational boundary for external debt, is demonstrated in Tables 6 and 7 below.

Table 6: Debt Limits

	2017/18 Maximum £m	31/03/18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Total debt	145.5	139.8	185.4	200.7	✓

- 9.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table7: Investment Limits

	2017/18 Maximum	31/03/18 Actual	2017/18 Limit	Complied
Any single organisation, except the UK Central Government	£6m	£4m	£8m	✓
Any group of organisations under the same ownership	£6m	£4m	£8m	✓
Any group of pooled funds under the same management	£5m	£5m	£8m	✓
Registered providers	£4m	£4m	£6m	✓
Money market funds	22%	4%	50%	✓

10. TREASURY MANAGEMENT INDICATORS

- 10.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

10.2. 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 net principal borrowed will be:

Table 8: Interest Rate Exposures

	31/03/18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate investment exposure	£2.0m	£30.0m	✓
Upper limit on variable interest rate investment exposure	£60.8m	£100.0m	✓
Upper limit on fixed interest rate borrowing exposure	£4.3m	174.4m	✓
Upper limit on variable interest rate borrowing exposure	£135.5m		✓

10.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

10.4. 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 9: Maturity Structure of Borrowing

	31/03/18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	9%	25%	0%	✓
5 years and within 10 years	15%	25%	0%	✓
10 years and above	70%	100%	0%	✓

Principal Sums Invested for Periods Longer than 364 days

10.5. 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 total principal sum invested to final maturities beyond the period end will be:

Table 10: Principal Sums Invested for Periods Longer than 364 days

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£21m	£18m	£13m
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied	✓	✓	✓

11. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

11.1. None arising directly from this report.

12. RECOMMENDATIONS

Members are recommended to:

12.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact Andrew Boutflower (HCC), or Alan Bethune	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance
	Local Government Act 2003
email: andrew.boutflower@hants.gov.uk alan.bethune@nfdc.gov.uk	SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
	Treasury Management Strategy Report 2017/18 Audit Committee – 27 January 2017 Council - 20 February 2017
	Changes to the Treasury Management Strategy Report Cabinet – 6 December 2017 Council – 11 December 2017
	Treasury Management Strategy Report 2018/19 Audit Committee – 26 January 2018 Council – 26 February 2018
	Treasury Management Mid-Year Monitoring Report 2017/18 Audit Committee – 25 August 2017
	Treasury Management Annual Outturn Report 2016/17 Audit Committee – 23 June 2017 Cabinet – 5 July 2017 Council – 10 July 2017
	Published Papers

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EMT – 22 MAY 2018
AUDIT COMMITTEE – 31 MAY 2018

LOCAL CODE OF GOOD GOVERNANCE REVIEW ANNUAL REPORT OF THE MONITORING OFFICER AND CHIEF FINANCE OFFICER 2017/18

1. INTRODUCTION

- 1.1 In April 2016 CIPFA/SOLACE published a new Code – “Delivering Good Governance in Local Government Framework 2016” with the key focus on governance processes and the achievement of sustainable social economic and environmental outcomes. This Council approved the revised Code in April 2017.
- 1.2 The Monitoring Officer and the Chief Finance Officer are responsible for annually reviewing the authority's compliance against the adopted Code and reporting their findings and recommended actions. This review provides one of the assurance strands in support of the Annual Governance Statement, required under the Account and Audit Regulations 2015.
- 1.3 This report brings together the outcomes of the review for 2017/18.

2. REVIEW OF COMPLIANCE

- 2.1 The good governance framework centres on the following 7 core principles.

A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.
D	Determining how to best optimize the achievement of intended outcomes
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

- 2.2 The Council's compliance with the Code has been assessed, and a summary of the findings is detailed in Appendix 1.
- 2.3 This assessment also considered progress made against the prior year, 2016/17 action plan, which was reported to Audit Committee in June 2017. This previous year's action plan and reported progress can be found in Appendix 2.
- 2.4 The main areas identified for further improvement during this review are summarised below with detailed actions recommended in Appendix 3.

3. FINANCIAL IMPLICATIONS

- 3.1 Although there are no direct financial implications arising from this report, good governance arrangements provide assurance in respect of financial management.

4. ENVIRONMENTAL MATTERS

4.1 There are no environmental matters arising directly from this report.

5. CRIME AND DISORDER IMPLICATIONS

5.1 Ethical behaviour in terms of avoiding fraud and corruption is an intrinsic element of good corporate governance and this report provides assurance in that regard.

6. EQUALITY AND DIVERSITY IMPLICATIONS

6.1 There are no equality and diversity implications arising directly from this report.

7. CONCLUSIONS

7.1 It is the view of the Monitoring Officer and Chief Finance Officer that the Council is able to have confidence in the effectiveness of its governance arrangements. This is illustrated by the few and relatively minor areas identified in Appendix 3 for review.

8. RECOMMENDATIONS

8.1 The Audit Committee notes the assessment carried out by the Monitoring Officer and the Chief Finance Officer and the actions set out in Appendix 3.

For Further Information Please Contact:

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Grainne O'Rourke
Executive Head of Governance & Regulation
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E-mail: grainne.orourke@nfdc.gov.uk

Background Papers:

Local Code of Good Governance-
The New Framework March 2017

Summary of the Council's compliance with its adopted Code of Good Governance

Principle	Assessment of Monitoring Officer and Chief Finance Officer and Evidence
A. How does the organisation behave with integrity, demonstrating strong commitment to ethical values, and respect the rule of law?	Detailed and up to date Constitution on decision making including expected standards of conduct. Good emphasis on Member Induction and Member Development generally. Sound rules on Procurement and Contract Standing Orders which have been recently reviewed to ensure they are fit for purpose. Comprehensive Scheme of Delegations and transparent decision making processes. Robust financial procedures ensuring probity in decision making. Protocols in place for statutory Chief Officers in carrying out their functions. Member and Officer Codes of Conduct in place, and robust complaints procedures. Register of Gifts and Hospitality for Members and Officers. Up to date whistleblowing policy, ICT Security policy, equality & diversity training and data protection modules in place. New Financial Regulations adopted (which was an outstanding action in the previous year's Action Plan)
B. How does the organisation ensure openness and comprehensive stakeholder engagement?	Detailed Constitution on how the Council makes decisions including rights of stakeholders. Well established overview and scrutiny panels open to the public. Council's website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers; good FOI policies in place and sound system for dealing with requests for information and good emphasis on compliance with deadlines. Local Plan 2016 Initial Proposals Consultation; robust Transparency Code; Annual Financial Report and Annual Governance Statement published. Good positive use of Social Media for Council business purposes i.e. Facebook; H&L, Annual Member Survey, Mystery Shopper; Annual User Survey. Partnership arrangements – need to be reviewed to include Terms of reference, risks in collaborative working, added value of partnership working and up to date Partnerships Register. Engagement with relevant charities providing training on universal credit. We continue to work with libraries to assist with the digital champion programme and welfare reforms. Hometalk magazine produced twice a year ensuring good liaison with Council tenants. Multi-Agency Forum for homelessness established bringing together community groups and other public sector groups to ensure wider and better engagement on the key issue of homelessness.

<p>C. How does the organisation define outcomes in terms of sustainable economic, social and environmental benefits?</p>	<p>Good standard of Committee reports; Corporate Plan; Corporate Framework; Local Plan 2016 (for which approval will be sought by Council in June 2018 to publish reviewed Local Plan); risk management strategy; Annual Performance and Budget Outturn report; Procurement rules, Regulations and Contract Standing Orders; good compliance with Environmental Information Regulations (EIR); Medium Term Financial Plan; Capital Programme – all add to the achievement of positive economic, social and environmental benefit. Significant work ongoing in Planning to ensure schemes enhance the environment. The Economic Development Section seeks, within the context of a need for development in a sustainable way, to support business investment, businesses with a local identity and new businesses and upskilling and supporting measure to improve the skills of the existing workforce.</p>
<p>D. How does the organisation determine how to best optimize the achievement of intended outcomes</p>	<p>Evidence of well thought out processes involving key officers including EMT at correct stages of new projects/initiatives. Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Committees in place with stakeholder engagement also achieved through the bespoke task and finish group process. Clear decision making protocols in place. Corporate plan sets out the overall Council strategy and key priorities. Publication of Annual performance reporting including key performance indicators. Regular Medium Term Financial Planning sets overall context of financial challenges. Risk Register sets overall context for risk management. The Corporate Framework, supported by overview and scrutiny panels, articulates how the Council's priorities are to be delivered through the strategies that will help support that delivery.</p>
<p>E. How does the organisation develop the entity's capacity, including the capability of its leadership and the individuals within it?</p>	<p>The Leader of the Council has undertaken a review of the Cabinet, and has subsequently increased Portfolio Holder numbers from 6 to 8; detailed Constitution; good Member Induction and Member Development Programme; Annual Workforce report; Good emphasis on development of individuals generally. Well established annual appraisal process. Good emphasis on Secondments and Apprenticeship opportunities; Staff Performance Development Review; Continuing Professional Development Programmes; Benchmarking; Training programmes in existence including Health & Safety, Fire Safety, Safeguarding, Equalities, Social Media; Staff 1:1; Periodic staff surveys In recent years, reviews of senior management and structures have brought about positive changes to meet the challenges of the future with emphasis remaining on the delivery of quality services to the community. Regular EMT site visits and Chief Executive communications.</p>

<p>F. How does the organisation manage risks and performance through robust internal control and strong public financial management?</p>	<p>Detailed and up to date Constitution. Well established reporting to Audit Committee and Overview and Scrutiny Committees in place with good emphasis on member induction and input. Risk Management Strategy in place, as well as Strategic and Service Risk Registers. Strong emergency response plan and suitable training of key officers on emergency planning scenarios. Financial regulations have recently undergone extensive review to ensure they are suitable and fit-for-purpose. Robust financial procedures ensuring probity in making decisions. Detailed Medium Term Financial planning and Financial Monitoring reporting throughout the year. Suitable level of expertise within the finance and audit functions. External Audit of Annual Financial Report including value for money opinion. Risk based internal auditing service/planning, with progress regularly reviewed by the Audit Committee. Key strategies and policies in place; Anti-Fraud and Corruption Strategy; Information Governance Policy; Information Asset Register; ICT Security Policy; GDPR Action Plan.</p>
<p>G. How does the organisation implement good practices in transparency, reporting and audit to deliver effective accountability?</p>	<p>Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Committees. Council website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers. Transparency pages on website gives information on contracts, payments to suppliers, access to information and other useful information. Clear decision making protocols and detailed Scheme of Delegation so that accountability for decisions is clear. Financial responsibility and accountability understood by senior management and members alike. Auditors prepares and presents independent annual opinion report, and regular updates on audit plan progress. Sound and suitably resourced internal audit service. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Regular financial updates provided by finance service to accountable officers. Peer review undertaken during 2017 provided positive feedback along with recommended actions. Annual Governance Statement reviewed by Audit Committee and external audit. New approach to the provision of Internal Audit through the Southern Internal Audit Partnership (hosted by Hampshire County Council).</p>

Follow up to Actions Arising from the Local Code of Good Governance Review 2016/17

Topic	Action	Responsible Officer	Deadline	Follow up as of June 2018
Financial Regulations	To review and update Financial Regulations.	Financial Services Manager (S151 Officer)	March 2018	Completed
Partnerships	To review partnership arrangements to include: terms of reference, identify risks in collaborative working, ensure added value of partnership working is explicit, produce accurate and up to date Partnerships Register	Executive Head – Resources working with EMT	March 2018	This review has been rescheduled to complete during 2018/19

Actions Arising from the Good Governance Review 2017/18

Topic	Action	Responsible Officer	Deadline
Business Continuity	A stronger corporate wide approach is required	Beccy Drummond/ Executive Heads with Service Managers	March 2019
Review and develop ICT Security Policy to include emerging Cyber Security Risk	All organisations worldwide face increasing cyber related threats. Whilst the ICT Security Policy was reviewed in 2017/18, further work is required on cyber security risks.	Rob Beere/Executive Head	March 2019
Partnership Register	An accurate and up to date Partnership register is required to ensure fit for purpose terms of reference, risks of collaborative working and the added value of partnerships all of which should be suitably documented	Beccy Drummond/Executive Heads	March 2019

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AUDIT COMMITTEE – 31 MAY 2018

DRAFT ANNUAL GOVERNANCE STATEMENT – 2017/18

1.0 INTRODUCTION

- 1.1 As prescribed by the Account and Audit Regulations 2015, regulation 6, the Council is required to produce an Annual Governance Statement (AGS) following an assessment of its governance framework.
- 1.2 The Leader of the Council and the Head of Paid Services (Chief Executive) are required to sign the AGS and be satisfied that the document is supported by reliable evidence. It will be published with the Annual Financial Report and provided to the External Auditor for review.

2.0 THE ANNUAL GOVERNANCE STATEMENT (AGS)

- 2.1 The Statement seeks to demonstrate that the Council's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. There is a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which the Council's functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2.2 In compiling the Statement, the Council has regard to its Internal Control arrangements including the outcomes of the annual Good Governance Review, risk registers, any external auditor reports and other management arrangements. It further considers the process applied in maintaining and reviewing the governance framework including the authority itself, the executive, audit/scrutiny committees and other assurance mechanisms.
- 2.3 Whilst the Council maintains high standards of governance and internal control some areas for improvement have been identified by the review process mentioned above, these have been reported in the AGS. An Action Plan has been developed accordingly and this will be monitored by the Council's Executive Management Team and Audit Committee.
- 2.4 Whilst the AGS covers the period 1st April 2017 to 31st March 2018, the document remains open for update until it is approved at the end of July 2018 and can make reference to any significant matters that arise.
- 2.5 The statement has been reviewed by the Executive Management team. The draft AGS for 2017/18 is attached in Appendix 1.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial consequences arising directly from this report.

4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

- 4.1 There are no equalities & diversity or environmental matters associated with this report.

5.0 CRIME & DISORDER IMPLICATIONS

- 5.1 There are no crime and disorder issues arising directly from this report.

6.0 CONCLUSIONS

- 6.1 The Annual Governance Statement reports that the Council has sound levels of internal control and good governance arrangements.
- 6.2 The statement does identify some areas for improvement and these will be managed by the Council's Executive Management Team.

7.0 RECOMMENDATIONS

- 7.1 That the Audit Committee approves the draft Annual Governance Statement for the Financial Year ended 31st March 2018 as reported in Appendix 1.

For Further Information Contact

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Background Papers

Delivering Good Governance in Local
Government Framework 2016

**THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2017/18**

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It has a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the Governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a code of good governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This statement explains how New Forest District Council has complied with the code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, as well as the culture and values, by which the authority is directed and controlled and its activities, through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in delivery of policies, achieving aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

The good governance framework centres on the following 7 core principles:

A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.
D	Determining the interventions necessary to optimize the achievement of the intended outcomes.
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Council's Corporate Plan "Delivering for our Communities", sets out the Council's overarching vision, values and strategy and sets out what the Council aims to achieve for the period 2016 - 2020. The Council aims to deliver good quality services that provide value for money and which are aligned to the needs and priorities of the local community.

The Council is concerned to ensure quality of service delivery, with special consideration to lesser financial resource availability and uses a variety of mechanisms to assess this. This helps inform future service delivery.

The Council continually revises its Medium Term forecast according to latest information received around likely funding levels and expenditure increases. The Council's current strong financial position and on-going efficiencies programme (including the development of new income generation), in order to protect the front-line service delivery, underpinned by the healthy General Fund reserve will enable the Council to respond to changes accordingly.

The Council has also developed, over the years, a number of successful joint or collaborative working arrangements with the public and other agencies. This has continued into 2017/18 with the New Forest National Park Authority and the Ringwood Gateway.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers in respect of policy and decision-making processes. There is a comprehensive scheme of delegations to officers to ensure timely decision-making. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

In 2016 CIPFA/SOLACE carried out a review of their framework to ensure that it still reflects the environment in which Councils are operating and to also reflect the International framework which had been developed by CIPFA and the International Federation of Accountants (IFAC) in 2014. As a result of their review in April 2016 CIPFA/SOLACE published a new framework document "Delivering Good Governance in Local Government Framework 2016 Edition" with the key focus of governance processes and structures centring on the attainment of sustainable economic, societal and environmental outcomes. Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

This Council has always maintained a strong internal control environment and sees risk management as an integral part of everyday management. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

A Summary of the review activities undertaken during 2017/18 are included below:

1. The Constitution and other Council Policies were reviewed and improvements implemented including:
 - Development of the Local Plan
 - Counter Fraud Strategy, whistleblowing and anti-money laundering policies
 - Access to information policy, reviewed in light of the Council's restructuring (and will be reviewed again in light of GDPR)
 - The Council's publication scheme has been reviewed, and is constantly updated.
2. Adaptations have been made during the year to the Councils executive and service management teams, two years on from the original inception of the new structure implemented by the then new Chief Executive. The changes further demonstrate the Council's willingness to be flexible and adapt to specific needs and requirements:
 - The number of Executive Heads has reduced from 4 to 3 during the year, and the Section 151 officer position has been re-evaluated, taking on the overall management of the largest financial services, and re-positioned as a member of the Executive Management Team.
 - A review of Service Management within Housing has resulted in the realignment of services between 2 new Service Manager Positions, and the merging of Housing Planned Maintenance with Building Works.
3. The Leader of the Council undertook a review of the Cabinet, and increased Portfolio Holder numbers from 6 to 8. The Council's budgets have been re-aligned to the new Portfolio Structure.
4. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for expenditure and income are supported by a business case. These are scrutinised initially by EMT and the Service Portfolio Holder prior to inclusion as a formal bid to Cabinet and the Council. The planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final proposals and the council tax levels are considered and approved by the Council each year.
5. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and the Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report published to Cabinet.
6. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively.
7. The responsibility of S151 (Chief Financial Officer) is placed with the Head of Finance. The Executive Head of Governance and Regulation is the Monitoring Officer. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Regulation (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure legal decisions are taken and that decisions consider the Council's corporate priorities and risks.
8. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations has been completed and the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2018, following approval by full Council.

9. The Performance Management framework ensures strategic monitoring with a focus on organisational and service based indicators reflecting the aims and objectives of the Corporate Plan. Performance indicators are reviewed during the year.
10. The Audit Committee met regularly and training has been provided. Training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment. In accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
11. The Audit Committee considered the Council's Risk Management Framework during 2017/18, and endorsed the Council's approach to risk management.
12. New Contract Standing Orders went live during the latter part of 2017/18 following a review conducted by the Service Manager for Legal and the Procurement Manager. Contract threshold values were increased allowing enhanced autonomy to Service Managers across the Council and improving the likelihood of suppliers in the local economy being awarded contracts. The central procurement team now focuses on assisting with high level contracts and has devolved low spending to Services.
13. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer. The Committee has also received reports and updates from the External Auditor.
14. The Internal Audit function operates to the Standards as set out in the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.
15. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in his overall opinion that:
 - sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
 - New Forest District Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice
 - where weaknesses have been identified through internal audit review, the Council's Internal Audit Team worked with management to agree appropriate corrective actions and a timescale for improvement.
16. A review was conducted on how internal audit at the Council is undertaken. Following a period of transition, the Council is looking forward to benefitting from being a part of the Southern Internal Audit Partnership from April 2018.
17. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
18. There have been no significant governance or internal control issues raised by Senior Management.
19. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. ICT has reviewed the ICT Security Policy during 2017/18 to include emerging Cyber Security risks.

20. Internal Audit has reported an adequate opinion on the overall control environment; however the following audit areas have received high priority recommendations that have not been resolved promptly:
- Payment Card Industry Data Security Standard Accreditation
 - Business Continuity - whilst some Services have a Business Continuity plan a stronger Corporate approach is required.
21. The Council will need to develop an accurate and up to date partnership register to ensure the terms of reference, the risks of collaborative working and the added value of partnership working is reviewed and suitably documented.

5. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan:

1. Implementation of uncompleted high priority audit recommendations (as per point 20 within section 4)
2. Review and develop the ICT Security Policy to include emerging Cyber Security risks

6. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2018 and up to the date of approval of the annual report and statement of accounts.

We propose to take steps over the coming year to address those areas identified above to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

<i>Signed:</i>	<i>Signed:</i>
Leader of the Council	Chief Executive

<i>Date:</i>	<i>Date:</i>
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Annual Governance Statement 2017/18 Action Plan

Business Continuity Arrangements	To review Business Continuity arrangements	Service Manager (Business Improvement & Customer Services) Civil Contingencies and CCTV Manager	March 2019
PCI Accreditation	To agree the Council's strategy with regards to achieving the necessary accreditation	Head of Finance, Service Manager ICT, ICT Security Manager	March 2019
ICT Security Policy/ Cyber Risk	Review and develop the ICT Security Policy to include emerging Cyber Security risks	ICT Security Manager	March 2019
Partnerships	To review partnership arrangements to:- develop terms of reference, identify risks in collaborative working, ensure added value of partnership working is explicit, produce accurate and up to date Partnerships Register	Executive Head – Resources	Sept 2019

EXECUTIVE HEADS – 22 MAY 2018
AUDIT COMMITTEE – 31 MAY 2018

CONTRACT STANDING ORDERS RELATING TO PROCUREMENT – WAIVERS 2017/18

1. PURPOSE OF REPORT

- 1.1 This report updates Members on waivers to Contract Standing Orders relating to Procurement approved during 2017/18.

2. BACKGROUND

- 2.1 The Council's Procurement Rules Regulations and Contract Standing Orders were reviewed and updated during the year; thereby creating the new Contract Standing Orders relating to Procurement, which became effective on 1 March 2018. For the purpose of this report both shall be referred to as Contract Standing Orders.
- 2.2 Contract Standing Orders provide the internal procedures to be followed for the procurement of goods, services and works and to ensure that the Council complies with procurement legislation whilst obtaining value for money in purchasing.
- 2.3 Contract Standing Orders must be followed by all individuals responsible for procurement for, or on behalf of the Council.
- 2.4 Contract Standing Orders provide for limited exceptions to the prescribed rules; where these exceptions do not apply and a procuring officer has a valid reason for not complying with the Contract Standing Orders, an application for a waiver may be submitted for approval. Table 1 shows the level of approval required for waivers for 2017/18.

Table 1 – Delegated authority to approve waivers

Value of Contract	Approval Required
£0 – EU Procurement Levels	Principal Auditor or Service Manager Legal

3. WAIVERS GRANTED 2017/18

- 3.1 There were 28 approved applications for a waiver against the Contract Standing Orders between 1 April 2017 and 31 March 2018. The total value of all approved waivers was £966,423.54. This compares with 39 applications approved during 2016/17, totalling £2,964,979.96.
- 3.2 These waiver applications, together with the values are detailed in Appendix 1. A summary of the total number and value by waived standing order is detailed in Table 2. New standing orders effective from 01/03/2018 have affected the standing order numbers and details.

Table 2 – Summary of waivers

Standing order number and detail	Number of approved applications	Total value £'000
Waivers approved under old standing orders (01/04/2017 – 28/02/2018)		
16 Minimum required numbers for invitation to quote or tender and receipt of quotation or tender.	17	322
67 Maximum value of variations on individual contract	10	627
Waivers approved under the new standing orders (01/03/2018 onwards)		
6 Contracts with a value between £15,000 and £25,000	1	17
Total	28	966

- 3.3 Three waivers were over £100,000 in value.
- 3.4 There were 6 waivers that were rejected during the year. The reason for the majority of rejections was due to an alternative procurement method being more appropriate.

4. FINANCIAL IMPLICATIONS

- 4.1 Contract Standing Orders relating to Procurement ensure that the most economically advantageous price is obtained in procurement. Waivers sought need to demonstrate that where tenders or quotations are not obtained, Value for Money can still be demonstrated.

5. CRIME & DISORDER IMPLICATIONS

- 5.1 Contract Standing Orders relating to Procurement provides procedures to limit the risk of collusive tendering (bid rigging)

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 Contract Standing Orders relating to Procurement provide for tender evaluation models to include environmental and sustainability policies.

7. EQUALITY & DIVERSITY IMPLICATIONS

- 7.1 None

8. RECOMMENDATIONS

- 8.1 That the Audit Committee notes the Waivers to the Council's Contract Standing Orders relating to Procurement approved during the financial year 2017/18.

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Background Papers: (Bold)

**Procurement Rules, Regulations and
Contract Standing Orders**

**Contract Standing Orders relating to
Procurement**

Appendix 1

Ref	Standing order to be waived	Description of Contract	Waiver Value	Date
1/17/18	SO67	Painting & Decorating Leisure Centres	£ 5,159.00	26/05/17
2/17/18	SO16	Fawley Waterside viability work	£ 9,500.00	15/06/17
3/17/18	SO16	Lymington H&L Fire Doors	£ 5,343.00	19/06/17
4/17/18	SO67	Bathroom Refurbishments	£ 170,000.00	22/06/17
6/17/18	SO16	Specialist Advice for Local Plan	£ 50,000.00	25/07/17
7/17/18	SO16	Air Quality Consultant	£ 26,000.00	28/07/17
8/17/18	SO16	Outsourcing Loans (Disabled Adaptions and Essential Repairs)	£ 11,875.00	07/08/17
9/17/18	SO16	Autonomous Surface Vehicle (ASV) for very shallow water bathymetry	£ 10,000.00	14/08/17
10/17/18	SO16	Electrical Testing	£ 16,872.00	18/08/17
11/17/18	SO67	Reinstatement works following fire damage	£ 13,301.77	22/08/17
12/17/18	SO67	Repair work to emergency lighting supply at Applemore Health and Leisure	£ 7,332.00	29/08/17
13/17/18	SO67	Groyne Maintenance Calshot Beach Hampshire	£ 11,991.01	04/09/17
14/17/18	SO16	Structural Repairs to Council Property	£ 6,854.00	04/09/17
16/17/18	SO16	Air Con Servicing	£ 5,487.40	25/09/17
17/17/18	SO16	Strategic review of Agresso Milestone 4 to 7 delta by unit 4	£ 15,000.00	27/09/17
18/17/18	SO16	Strategic flood risk assessment level 2	£ 38,418.00	03/10/17
21/17/18	SO16	Placing planning and highway statutory notices in local newspapers	£ 25,000.00	25/10/17
23/17/18	SO67	Leisure Centre Painting & Decorating Works	£ 788.00	07/11/17
24/17/17	SO67	Kitchen Refurbishments - to help achieve their decent homes programme targets	£ 233,333.00	21/11/17
25/17/18	SO16	Lymington Leisure Centre 1 New Additional Turnstile	£ 7,336.00	28/11/17
26/17/18	SO16	Milford Ramp Testing	£ 9,206.39	12/12/17
28/17/18	SO16	Viability Assessment	£ 18,034.00	10/01/18
29/17/18	SO16	Provision of Base of Beach Field Trial of Passive Seismometer Technique	£ 59,909.67	25/01/18
30/17/18	SO67	HTH to Hypochlorite acid conversion	£ 2,911.00	01/02/18
31/17/18	SO67	King George V Rec, Calmore	£ 12,272.30	26/02/18
32/17/18	SO67	Kitchen Refurbishments - to help achieve their decent homes programme targets	£ 170,000.00	26/02/18

33/17/18	SO16	One Year Licence to use the Housing Partners (PRAH Module) in respect of the Homelessness Reduction Act 2017	£ 7,500.00	28/02/2018
34/17/18	SO6	Selima (Envoy Central)	£ 17,000.00	14/03/2018

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**EMT 22 MAY 2018
AUDIT COMMITTEE – 31 MAY 2018**

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2017-18

1. INTRODUCTION

- 1.1. The purpose of this report is to inform members of the Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 2017-18.

2. SUMMARY

- 2.1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.
- 2.2. The Annual Report for 2017-18 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the adequacy and effectiveness the Council's framework of risk management, control and governance processes and summarises audit work from which that opinion is derived for the year ending 31 March 2018.
- 2.3. The Audit Committee's attention is drawn to the following points:
 - The internal audit plan for 2017-18 has been substantially delivered;
 - The Council's framework of governance, risk management and management control is considered to be 'Reasonable' and audit testing has demonstrated controls to be working in practice;
 - Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers, and
 - No significant issues requiring inclusion within the Annual Governance Statement were identified as a result of the internal audit activity.

3. ADDITIONAL INFORMATION

- 3.1. The 2017-18 internal audit plan was delivered by the Council's in-house team. With effect from 01 April 2018, the Council transferred responsibility for internal audit to the Southern Internal Audit Partnership (SIAP), and in so doing, the Head of SIAP is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its' governance statement.

4. FINANCIAL IMPLICATIONS & CRIME AND DISORDER IMPLICATIONS

- 4.1. 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.

5. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

- 4.2. There are no matters arising directly from this report.

6. RECOMMENDATION

- 4.3. 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 17-18

Annual Internal Audit Report & Opinion

2017 - 18

New Forest District Council

**Southern Internal
Audit Partnership**

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Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Opinion

The 2017-18 internal audit plan was delivered by the Council's in-house team. With effect from 01 April 2018, the Council transferred responsibility for internal audit to the Southern Internal Audit Partnership (SIAP), and in so doing, the Head of SIAP is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its' governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year;
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the proportion of New Forest District Council's audit need that has been covered within the period.

Annual Internal Audit Opinion 2017-18

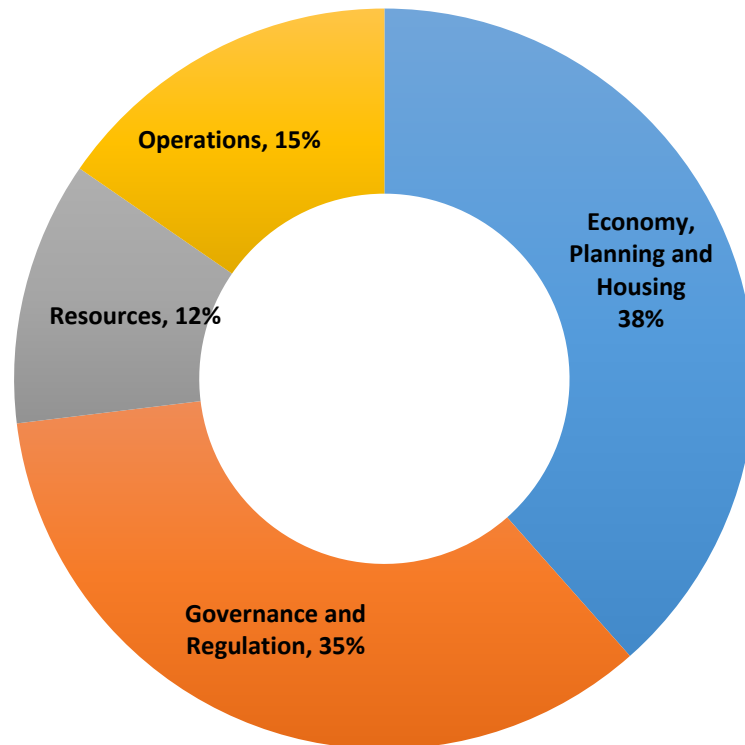
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.

In my opinion, New Forest District Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, the Council's Internal Audit Team worked with management to agree appropriate corrective actions and a timescale for improvement."

3. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2017-18 internal audit plan was approved by the Audit Committee in March 2017. The plan remained fluid throughout the year to maintain an effective focus.

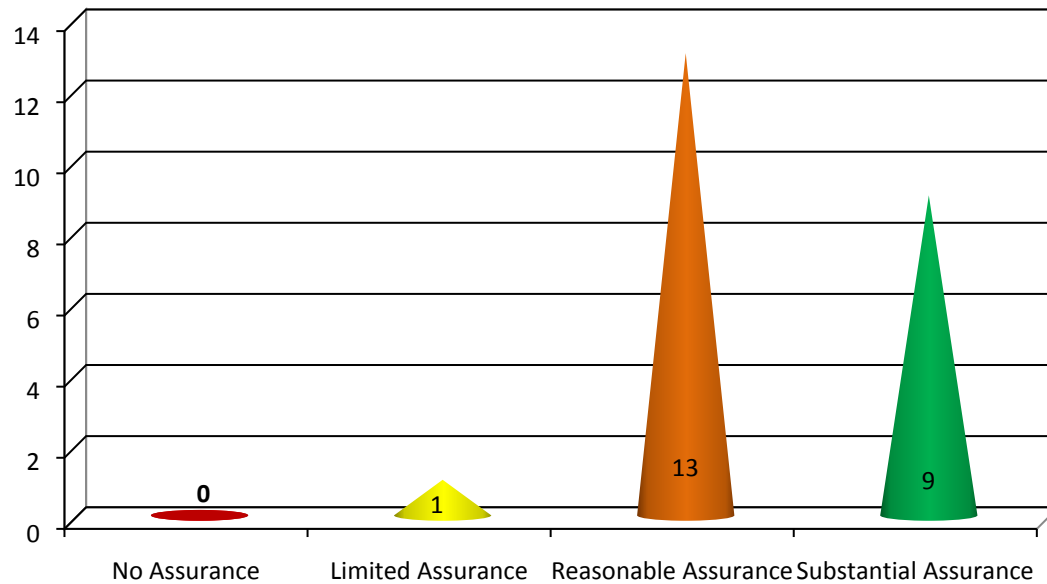
In delivering the internal audit opinion the Council’s Team undertook 26 reviews during the year ending 31 March 2018.

Due to the ICT Auditors focus on GDPR readiness in the early part of the year and later resignation, there was minimal ICT audit coverage within the year; therefore SIAP are developing an assurance map to inform future years’ ICT audit activity and ensure sufficiency of audit coverage.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Fieldwork remains in progress in respect of three reviews (Payroll; ICT Assurance Mapping and a combined Vehicle and Plant Maintenance / Transport and Fleet Management Audit).

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) was defined by the in-house team as follows:



Substantial - A strong system of internal controls, designed and operating effectively.

Reasonable - A sound system of internal controls; but one where minor weaknesses were found in the system design, or lack of compliance to the design;

Limited - Some weakness was identified in the overall system of controls, or the level of compliance resulted in risk to the achievement of system objectives;

No - Fundamental weakness was identified within one or more key controls, or controls were not operating effectively which may put at risk the achievement of the corporate control objective.

A summary of the Internal Audit Activity and Opinion for each review is provided in Annex A.

4. Key Observations

There were no 'No Assurance' opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives.

One report concluded with a 'Limited Assurance' opinion during the year - Health and Leisure Centres. The following is a summary of the main findings:-

Information Governance - personal and sensitive information was found to be retained for longer than necessary, access to information was not suitably restricted and staff had not received adequate training on data protection.

Health and Safety - two centres did not have a current fire risk assessment and there were outstanding actions from the assessments undertaken at the three other centres.

In general, routine safety checks were found to be completed, however the audit identified gaps in coverage and in recording the checks undertaken. The audit also found that access to, and the control of, potentially harmful chemicals could be enhanced. There was opportunity to make more effective use of available software to record and monitor activity undertaken, identify and address outstanding actions and achieve more consistency with records keeping, control and management.

Training & Development - based upon the information within the Health and Leisure training database and HR information held in Agresso or Meridio, the audit highlighted inconsistencies in the completion, recording and evidencing of staff training.

Significant progress had been made with implementing the actions arising from this review including the completion of all (five) high priority actions.

5. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

There were 33 potential fraud or irregularity referrals to the in-house team during 2017-18 (30 in 2016-17). Investigations were undertaken on 11 of these referrals of which one is on-going. 10 cases have been closed resulting in the recovery of one property due to tenancy fraud, eight relating to Housing Benefit/Council Tax Benefit or Reduction fraud and one internal investigation.

The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work. As the Internal Audit provider, the Southern Internal Audit Partnership (SIAP) will monitor the outcomes of this work and will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

6. Acknowledgement

I would like to take this opportunity to thank all those staff throughout New Forest District Council with whom the in-house team have engaged with throughout the year. It is our view that the relationship has been positive and management were responsive to the comments made both informally and through formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
May 2018

Annex A – 2017-18 Internal Audit Activity

Audit Area	Status	Audit Opinion
Economy, Planning and Housing		
Development Control (including planning enforcement and appeals)	Final Report	Reasonable Assurance
Forward Planning - Policy and Plans (inc S106/CIL)	Final Report	Reasonable Assurance
Conservation (listed/historic buildings) and Urban Design	Final Report	Substantial Assurance
Sundry Income Team	Final Report	Substantial Assurance
Council Tax	Final Report	Reasonable Assurance
National Non Domestic Rates	Final Report	Substantial Assurance
Housing Benefits	Final Report	Substantial Assurance
Landlord Services (Rents)	Final Report	Substantial Assurance
Estates Management	Final Report	Reasonable Assurance
Resident Involvement	Final Report	Reasonable Assurance
Governance and Regulation		
Main Accounting System inc bank reconciliation	Final Report	Substantial Assurance
Treasury Management	Final Report	Substantial Assurance
Accounts Payable	Final Report	Reasonable Assurance
Income/Cash Collection, Banking and Reconciliations	Final Report	Reasonable Assurance
VAT	Final Report	Reasonable Assurance

Audit Area	Status	Audit Opinion
Procurement - Contract Management Audit	Final Report	Substantial Assurance
Asset Management	Final Report	Substantial Assurance
Community Safety (inc Anti Social Behaviour)	Final Report	Reasonable Assurance
Health and Safety	Final Report	Reasonable Assurance
Resources		
Payroll	<i>In progress</i>	
IT Audit – Assurance Mapping	<i>In progress</i>	
Community Alarms / Lifelines / CCTV	Final Report	Reasonable Assurance
Operations		
Health and Leisure Centres (including income returns)	Final Report	Limited Assurance
Parking & Enforcement (including Car Park income reconciliations)	Final Report	Reasonable Assurance
Vehicle and Plant Maintenance / Transport and Fleet Management System	<i>In progress</i>	
Trees (Council Owned)	Final Report	Reasonable Assurance

AUDIT COMMITTEE – 23 MARCH 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
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 Internal Audit Progress Report Against the Audit Plan
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