



28 January 2020

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 28 JANUARY 2020** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**

Kathy O'Leary
Chief Executive

Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

AGENDA

- 1 **APOLOGIES**
To receive apologies for absence.
- 2 **DECLARATIONS OF INTEREST**
To receive declarations of interest.
- 3 **MINUTES**
To approve the Minutes of the meeting held on 19 November 2019.
- 4 **PUBLIC QUESTION TIME**
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.
DEADLINE FOR RECEIPT OF QUESTIONS
Noon on THURSDAY 23 JANUARY 2020
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: democratic.services@stroud.gov.uk.
- 5 **EXTERNAL AUDIT PLAN**
To follow under separate cover.

- 6** **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2019/20**
To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2019/20.
- 7** **COUNTER FRAUD UNIT REPORT**
To provide the Audit and Standards Committee with assurance over the counter fraud activities of the Council in relation to the work undertaken by the Counter Fraud Unit (CFU).
- 8** **INTERNAL AUDIT PURPOSE, AUTHORITY, ROLE AND FUNCTION**
Regulation and mandatory auditing standards require the Chief Internal Auditor to periodically review and present the Internal Audit Strategies to Senior Management and the Audit and Standards Committee, to provide assurance that the Internal Audit function operates in accordance with professional standards.
- 9** **ANNUAL GOVERNANCE STATEMENT 2018/2019 IMPROVEMENT PLAN – PROGRESS REPORT**
To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council have been/are being addressed.
- 10** **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21**
To outline the Council's prudential indicators for 2020/21 – 2022/23 and set out the treasury strategy for this period. It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2020/21.
- 11** **3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2019/20**
To provide an update on treasury management activity as at 31 December 2019.
- 12** **STANDING ITEMS**
a) To consider the work programme for 2019/20
b) To consider any Risk Management issues.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Tom Williams (Vice-Chair)
Councillor Dorcas Binns
Councillor Miranda Clifton
Councillor Rachel Curley

Councillor Stephen Davies
Councillor Karen McKeown
Councillor Keith Pearson
Councillor Mark Reeves



STROUD DISTRICT COUNCIL

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AUDIT AND STANDARDS COMMITTEE

19 November 2019

7.00 pm – 8.53 pm

Council Chamber, Ebley Mill, Stroud

3

Minutes

Membership:

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Stephen Davies	P
Councillor Tom Williams (Vice-Chair)	P	Councillor Karen McKeown	P
Councillor Dorcas Binns	A	Councillor Keith Pearson	P
Councillor Miranda Clifton	P	Councillor Mark Reeves	A
Councillor Rachel Curley	P		

A = Absent P = Present

Officers present:

Interim Head of Legal Services and Monitoring Officer	Head of Audit Risk Assurance (ARA) (Chief Internal Auditor)
Strategic Director of Resources	Democratic Services & Elections Officer

AC.013

APOLOGIES

Apologies for absence had been received from Councillors Reeves and Binns.

AC.014

DECLARATIONS OF INTEREST

There were none.

AC.015

MINUTES

RESOLVED

That the Minutes of the meeting held on 8 October 2019, are approved as a correct record.

AC.016

PUBLIC QUESTION TIME

There were none.

AC.017

ANNUAL AUDIT LETTER

The Strategic Director of Resources introduced the Annual Audit Letter from Deloitte, he advised that the letter contained a summary of the information that had been provided to the Committee in July 2019 and that they were formally required to send this letter to Members. It was stated that the letter confirmed an unqualified opinion had been issued on the Statement of Accounts

and on Value for Money and that the Annual Governance Statement had been reviewed. Deloitte had advised that they were comfortable with their findings and therefore did not need to be at the Committee to present the item.

On being put to the vote, the Motion was carried unanimously.

RESOLVED To note the Annual Audit Letter on the 2018/19 External Audit.

AC.018 REVIEW OF THE EFFECTIVENESS OF THE AUDIT AND STANDARDS COMMITTEE – OUTCOMES AND ACTION PLAN

The Head of ARA advised that the report contained an action plan which had been put together based on the findings of the workshop that was held in June 2019, the workshop assessed the effectiveness of the Audit and Standards Committee against CIPFA guidance. It was advised that there were 6 actions which had arisen from the workshop, 2 of the actions were contained in separate reports, within the Agenda. The Head of ARA drew the Committees' attention to the remaining action points. The Head of ARA asked the Committee to consider the following:

- Should they look at promoting the Annual Governance Statement and good governance to other Committees?
- Should the Chief Executive be invited to attend an Audit and Standards Committee once a year?
- Would an assurance framework be needed to ensure that other Committees are performing their scrutiny function?
- Would they like to undertake the annual review of the effectiveness of the Audit and Standards Committee alongside other Audit Committees from ARA partner organisations?

The Head of ARA also advised that a training workshop had been arranged on Monday 16 and Tuesday 17 March 2020 to address Item 5 of the Action Plan.

Councillor McKeown asked whether consideration had been taken to have an interface between the Corporate Delivery Plan (CDP) and the Action Plan to ensure we are delivering what we have said we will deliver. The Head of ARA advised that all Audit Plans have to be aligned to the strategic objectives of the Council, she also advised that on 2 December 2019 there would be a risk based internal audit planning workshop with the Audit and Standards Committee that would look at where to focus the 2020/2021 audit activity, this would ensure that audit assurance work was aligned to the CDP. The Strategic Director of Resources confirmed that Audit Plans set out where the Internal Audit Team are directing their resources to ensure that the Council is delivering the objectives listed in the CDP. The Interim Head of Legal Services and Monitoring Officer also advised that updates on the CDP Performance are taken to the Strategy and Resources Committee and to Full Council and therefore all Members do have a full oversight of the performance of the CDP.

Councillor Davies asked if the training in March was going to be provided to all Committees or just the Audit and Standards Committee. The Head of ARA advised that at this time the training scheduled was only for the Audit and Standards Committee, as this particular training session has been devised specifically to support Audit and Standards Committee members in fulfilling their role, however she would discuss with the Strategic Director of Resources what further training could be considered for other Committees that would help promote good governance. The Strategic Director of Resources also advised that the training in March would be tailored specifically to the Audit and Standards Committee, he also confirmed that Audit and Standards was an assurance Committee not a scrutiny Committee and therefore it would be a good idea to provide training to all Committees on the function of scrutiny and good governance. Councillor Davies confirmed that he understood that the CIPFA training in March would not be the best training for other Committees.

Councillor Pearson asked which Audit and Standards Committee meeting the Chief Executive would be requested to attend. The Head of ARA advised that this had not been decided however put forward a suggestion of the July Committee as it would contain all the annual reports such as the Annual Governance Statement, Statement of Accounts and the Annual Report on Internal Audit. Councillor Studdert-Kennedy, the Chair, asked the Committee to consider whether the Chief Executive should attend the Audit and Standards Committee more than once a year. Councillor Davies stated that the July Committee would not be the most appropriate choice for the Chief Executive to attend as it is a very lengthy agenda and focuses on numbers and therefore perhaps she should attend the July Committee Meeting and one other. The Chair confirmed with the Committee that they were happy to let the Head of ARA and Strategic Director of Resources discuss this further outside of the Committee and come to a decision. He asked the Committee to note that they have the ability to invite the Chief Executive to attend meetings of the Audit and Standards Committee.

On being put to the vote, the Motion was carried unanimously.

RESOLVED **To approve the action plan emanating from the effectiveness review and consider any further actions / training / developmental requirements to support them in their role.**

AC.019 **AUDIT AND STANDARDS COMMITTEE'S PROPOSED TERMS OF REFERENCE**

The Head of ARA advised that this report and recommendation was in response to the effectiveness review and was included within the Action Plan in Appendix 1 of Agenda Item 6, she also advised that the proposed Terms of Reference had been circulated to the Committee for comments previously and that she had taken on board all of the comments received.

Councillor Davies advised that the extra structure and discipline provided by the new Terms of Reference was useful and thanked the Officers for their work on this.

Councillor Williams queried the creation of a sub-committee over a Panel or Task and Finish Group. The Interim Head of Legal Services and Monitoring Officer advised that there was a place for working groups and a place for sub-committees and that he thought that the Standards Panel was carrying out a function but was not properly constituted. He advised he would be taking a report to Strategy and Resources Committee to recommend reinstating the Constitution Working Group who would be tasked with looking at this issue.

The Chair asked the Committee to consider how they could secure mandatory training of Councillors and co-opted Members on the Code of Conduct as mentioned in Appendix 1. Councillor McKeown advised that Group Leaders should be responsible for this. The Interim Head of Legal Services and Monitoring Officer advised that the only way to enforce mandatory training would be to include a requirement to attend mandatory training in the Code of Conduct. If Members did not attend the training it could be a breach of the Code of Conduct, however he advised that this could be considered heavy handed. Councillor Davies asked if the use of technology would assist and whether videos of the training could be issued and monitored to see if Members watched them.

Councillor Pearson queried the number of Members that would sit on the Standards sub-committee, he advised that 5 Members and 2 Independent Members would be too many for a disciplinary committee. Councillor McKeown confirmed that she shared Councillor Pearson's concerns regarding the number of Members on the sub-committee. The Interim Head of Legal Services and Monitoring Officer advised that the size of the sub-committee is based on making it politically balanced, however advised that he would look into this further and would provide clarification at Council as to the proposed size of the sub-committee.

On being put to the vote, the Motion was carried unanimously, on the understanding that the Interim Head of Legal Services and Monitoring Officer would provide further clarification on the size of the sub-committee at Council.

RESOLVED **To agree the revised Audit and Standards Committee's Terms of Reference as set out in Appendix 1.**

RECOMMENDED **That the Audit and Standards Committee's Terms of Reference are**
TO COUNCIL **approved**

AC.020 **APPOINTMENT OF AN INDEPENDENT MEMBER TO THE AUDIT AND STANDARDS COMMITTEE**

The Head of ARA advised that the new CIPFA guidance recommended that the Committee consider an appointment of an Independent Member to the Committee and advised that the rationale behind this was outlined in paragraph 1.6.

Councillor Davies queried whether the criteria around involvement in political activity would preclude someone from applying. The Interim Head of Legal Services and Monitoring Officer advised that it was a matter of degree.

Councillor Clifton asked if the disqualifying criteria listed in Appendix 2 as 'A formal connection with any political group' should also be listed in the job advertisement in Appendix 1. The Strategic Director of Resources advised that this was an error on the advertisement and would amend it accordingly.

Councillor Curley asked questions regarding the annual allowance for the Independent Member. The Head of ARA advised that the annual allowance had been benchmarked against other authorities and they had used the average allowance provided by other District Councils. She also advised that the term of 3 years had come about as 1 year was thought to be too short however advised that this could be looked at further if required. The Strategic Director of Resources advised that the Head of ARA had carried out benchmarking and that offering expenses in addition to the fee would be time consuming in terms of administration and therefore the decision for a flat fee that would cover the cost of expenses had been put forward. The Interim Head of Legal Services confirmed that an Independent Member could be re-appointed after their 3 year term.

Councillor McKeown asked whether any monitoring would be carried out on the Independent Member's performance and if there would be any sanctions for not attending meetings. The Strategic Director of Resources advised that it would be up to the Committee to judge whether they are performing satisfactorily and that there would not be a formal appraisal process. The Interim Head of Legal Services and Monitoring Officer confirmed that as a co-opted member they would also have to follow the same Code of Conduct as elected Members and that if an Independent Member was not performing satisfactorily that they could be removed by the Committee. Councillor Pearson suggested that they pay the Independent Member for attendance at each Committee Meeting rather than in one lump sum. The Head of ARA advised that the performance of the Independent Member would form part of the overall annual review of the Effectiveness of the Audit and Standards Committee. She also confirmed that if no one applied for the position or if they did not find the right candidates they would review the approach again.

Councillor Pearson put forward his concerns with finding the right person with the technical skills to understand local government accounts. The Strategic Director of Resources confirmed that

they would be looking to appoint someone who has the right technical skills to help the Committee who would be able to hold Officers to account.

The Chair asked the Committee to consider the following:

- The exclusion of connections with the Council removes the opportunity of appointing former Councillors who have the correct skills; and
- Whether the Independent Member, who would be appointed to provide assurance, should be able to vote.

The Interim Head of Legal Services and Monitoring Officer advised that co-opted members who are not elected would not be able to vote at Committee Meetings.

Councillor Williams asked whether the 5-year exclusion only applied to people with an association to Stroud District Council or any Council. The Interim Head of Legal Services confirmed that this only covered any association with Stroud District Council.

Councillor Pearson asked whether the Committee would be able to make the decision as to which candidate to appoint as the Independent Member. The Strategic Director of Resources advised that Officers would run the recruitment process, however the Committee would be able to decide whether to appoint them.

On being put to the vote, the Motion was carried unanimously.

- RESOLVED**
1. **To approve the principle of co-opting an Independent Person onto the Audit and Standards Committee on a non-voting basis.**
 2. **To approve the Independent Person specification, role advert and recruitment pack.**

- RECOMMENDED TO COUNCIL**
1. **That an Independent Member is co-opted on to the Audit and Standards Committee on a non-voting basis.**
 2. **The Person Specification, Role Advert and Recruitment pack are approved.**
 3. **That the appointment of the Independent Member is delegated to the Audit of Standards Committee.**
 4. **That the process for selecting and recommending an appropriate candidate is delegated to the Strategic Director of Resources in consultation with the Chair of Audit and Standards Committee.**

AC.021 HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2019/20

In presenting the above report, the Strategic Director of Resources referred to Table 1 which set out the average investments and average interest rate and Table 2 which set out the external borrowing position.

The Strategic Director of Resources thanked the Members that had been involved in the presentations for the investment options and advised that they hoped to make the decision as to where to invest in December.

Councillor Davies asked for confirmation that the report shouldn't show any improvement from our changing strategy as we had not yet made any investments. The Strategic Director of Resources confirmed that this was correct.

Councillor Curley thanked the Strategic Director of Resources for his and the teams work for steering them through such a robust and thorough process of finding a Multi Asset Fund.

On being put to the vote, the Motion was carried unanimously.

RECOMMENDED TO COUNCIL **That Council approves the Treasury Management Activity Half Year Report for 2019/20.**

AC.022 **GDPR UPDATE**

The Interim Head of Legal Services and Monitoring Officer advised that the report provided background to GDPR and the number of breaches that the Council had had since GDPR came into effect in May 2018. He also advised that, as a result of a recommendation from a recent audit, all breaches are now being recorded whether actions are taken or not.

Councillor McKeown was concerned that not all the breaches had been included in the report. The Interim Head of Legal Services and Monitoring Officer advised that he was not able to comment on what had happened previously, but that he could give members assurance that all breaches are now recorded. He indicated that he could take members through the individual breaches, but that to avoid unwittingly breaching data protection requirements, the Committee could resolve to go into closed session based on Paragraphs 1 and 2 of Schedule 12A of the Local Government Act 1972 if required.

Councillor Curley asked if we had seen an increase in Subject Access Requests and if so was it creating any capacity issues. The Interim Head of Legal Services and Monitoring Officer advised that he was unaware of any significant increases but as there was not a centralised process for dealing with these requests and that, unfortunately without checking with the individual departments concerned he would be unable to confirm.

Councillor Pearson proposed a motion that the Committee enter into closed session under Paragraphs 1 and 2 of Schedule 12A of the Local Government Act 1972, this was seconded by Councillor McKeown.

On being put to the vote the Motion to enter a closed session was carried unanimously.

RESOLVED **That, pursuant to the provisions of Section 100 (A)(4) of the Local Government Act 1972, the public are excluded from the meeting during consideration of the matters detailed at Minute No. AC.022 on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 2 and 3 of Part 1 of Schedule 12A of the Act.**

RESOLVED **To note the report.**

AC.023 **STANDING ITEMS**

(a) Work Programme

The Chair asked when the Revised Tenancy Fraud Policy would be coming to the Committee. The Strategic Director of Resources advised that he would need to check as the report would initially need to be taken to Housing Committee.

(b) Risk Management

Councillor McKeown confirmed that she had undertaken a procurement assessment and that the process had been robust with the exception of the level of exemptions which still sits at 20%. She advised that she had asked for further information on this. The Interim Head of Legal Services and Monitoring Officer confirmed that further information would be provided detailing the exemptions.

Councillor Davies advised that there was a new IT Strategy being developed and that it would be best to defer looking into it until the strategy had been developed.

Councillor Pearson stated that the Managing Director of UBICO had now taken the position as Chief Executive at Cheltenham Borough Council and that there was now better reporting. The Strategic Director of Resources confirmed that the Internal Audit of the Multi Service Contract was now underway and the report would come back to the Audit and Standards Committee.

The Head of ARA advised that there would be a Risk Based Audit Planning Workshop on 2 December 2019.

AC.024 **MEMBERS' QUESTIONS**

There were none.

The meeting closed at 8.53 pm.

Chair

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

6

Report Title	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2019/20
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2019/20.
Decision(s)	The Committee RESOLVES: a. To accept the progress against the Internal Audit Plan 2019/20; and b. To accept the assurance opinions provided in relation to the effectiveness of the Council's control environment.
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report. Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
Legal Implications	The legal framework concerning the requirements regarding internal audit are set out in the opening section of the progress report. Patrick Arran, Interim Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2019/20. These are scheduled to be presented to Audit and Standards Committee at the January 2020, April 2020 and July 2020 meetings.

Background Papers/ Appendices	Appendix A – Internal Audit Activity Progress Report 2019/20. Background papers: <ul style="list-style-type: none"> ➤ Internal Audit Plan 2019/20; ➤ PSIAS; and the ➤ CIPFA Local Government Application Note for the UK PSIAS.
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1.0 Background

- 1.1 Members approved the Internal Audit Plan 2019/20 at 7th May 2019 Audit and Standards Committee meeting. In accordance with the PSIAS, this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.
- 1.2 The Internal Audit Activity Progress Report 2019/20 at **Appendix A** summarises:
- The progress against the Internal Audit Plan 2019/20, including the assurance opinions on the effectiveness of risk management and control processes;
 - The outcomes of the Internal Audit activity during the period October to December 2019; and
 - Special investigations/counter fraud activity.
- 1.3 The report is the second progress report in relation to the Internal Audit Plan 2019/20.

Internal Audit Activity Progress Report

2019-2020



(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “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 Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements. Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively. Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2019/20 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period October to December 2019; and
- Special investigations/counter fraud activity.

(4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control

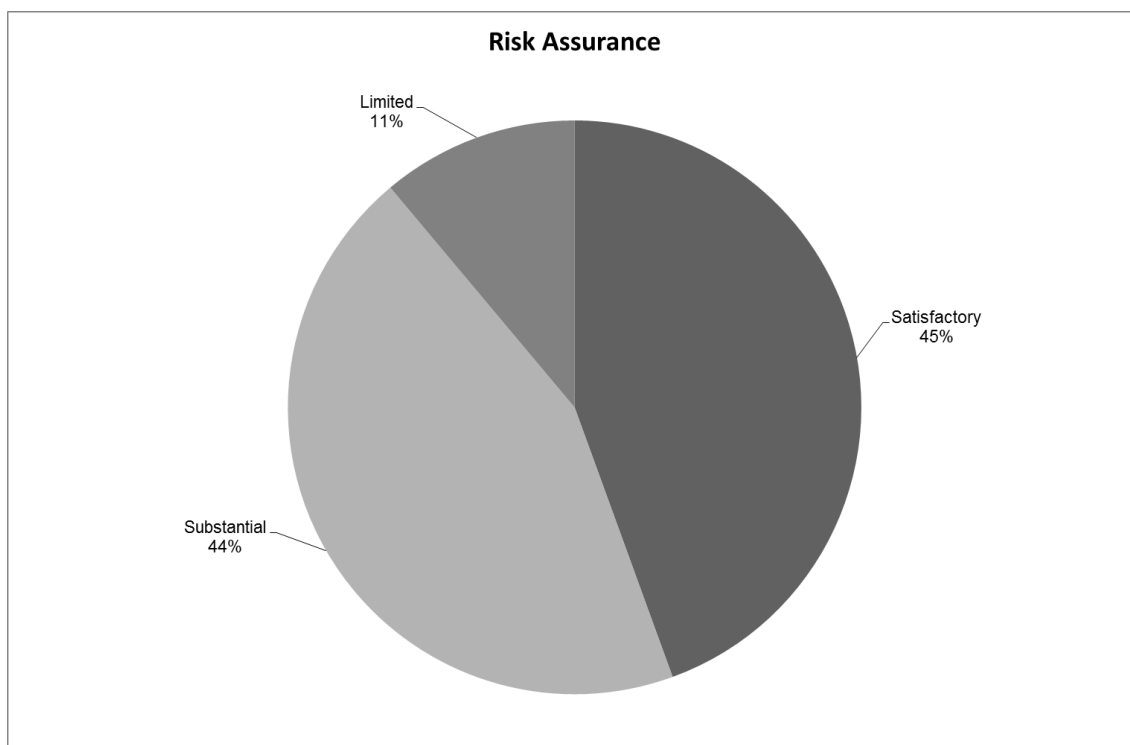
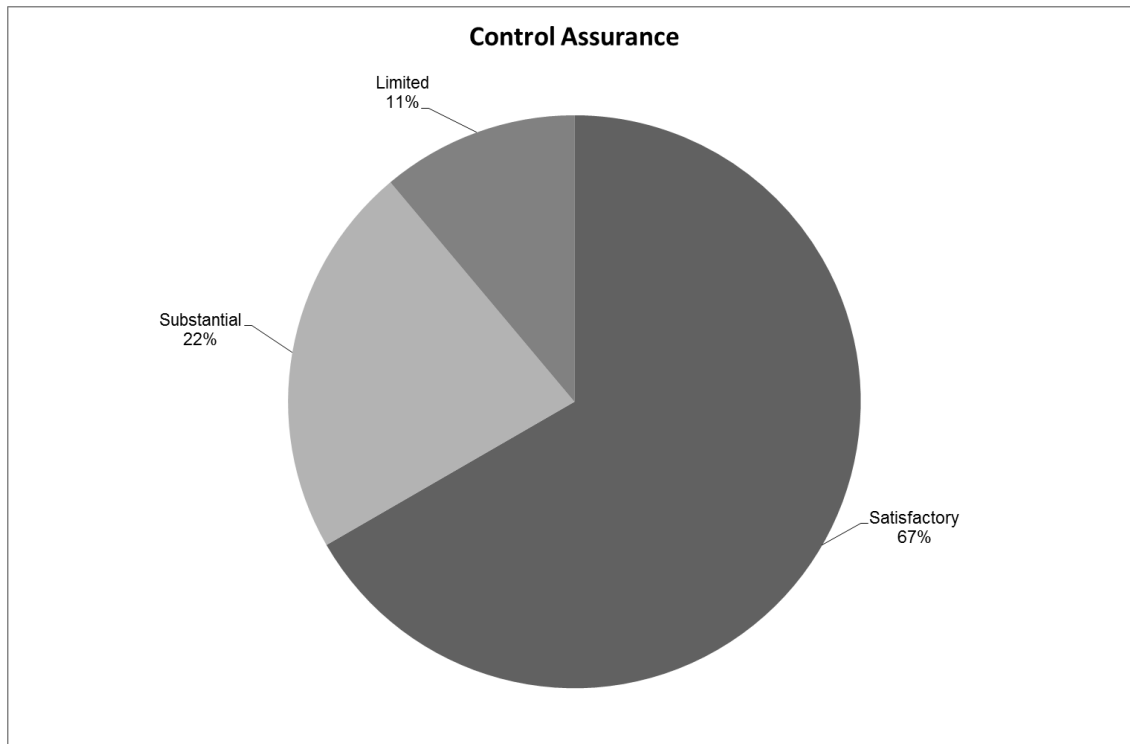
The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.	<ul style="list-style-type: none"> System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved Control Application – Controls are applied continuously or with minor lapses
Satisfactory	Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. However some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.	<ul style="list-style-type: none"> System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger Control Application – Controls are applied but with some lapses
Limited	Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.	<ul style="list-style-type: none"> System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls Control Application – Significant breakdown in the application of control

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2019 - December 2019.



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period October 2019 to December 2019, one audit review has been provided with a limited assurance opinion on control which relates to the Gloucestershire Building Control Partnership (the Building Control Shared Service).

It is important to note that whilst a limited assurance opinion has been provided, management have responded positively to the recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that a plan of action has been prepared to address the issues identified by this review.

In addition, where a limited assurance opinion is given, a follow up audit is undertaken to provide assurance that the agreed actions have been implemented by management.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During October to December 2019 Internal Audit made, in total, **20** recommendations to improve the control environment, **4** of these being high priority recommendations (**100%** of these being accepted by management) and **16** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period October 2019 to December 2019, one limited assurance opinion on risk has been provided on completed audits from the 2019/20 Internal Audit Plan. This relates to the Building Control Shared Service.

Monitoring of the implementation of recommendations to manage the risks identified is owned by the relevant manager(s) and helps to further embed risk management in to the day to day management, risk monitoring and reporting process.

Completed Internal Audit Activity during the period October 2019 to December 2019

Summary of Limited Assurance Opinions on Control

Service Area: Development Services

Audit Activity: Gloucestershire Building Control Partnership

Background

Stroud District Council (SDC) and Gloucester City Council have collaborated to provide a shared local government building control service known as the Gloucestershire Building Control Partnership (GBCP). The GBCP was established on 1st July 2015 through a Section 101 Agreement, with staff being employed by SDC acting as the host authority. The Building Control function comprises of two elements:

- Plan vetting and inspection of applications, which is a statutory council function in direct competition with the private sector. The financial arrangements for this service are separate from the authority's general fund and the financial accounts are known as the 'trading' account; and
- Enforcement of Building Regulations and legislation, whose financial arrangements are borne by an authority and are known as the 'non-trading' account.

Scope

The review sought to confirm that there are effective governance, risk management and monitoring arrangements in place for GBCP and that these were operating effectively.

The detailed objectives were as follows:

- Recommendations raised in the 2016-17 audit review have been fully implemented or there is an approved action plan to show how and when they will be implemented;
- There are effective governance, risk management and monitoring arrangements in place to confirm that GBCP is being managed effectively and that it achieves its main aims and objectives;
- The fees have been correctly determined, approved and comply with regulations; and

- The costs of the service are correctly determined / calculated and apportioned to the partners.

Risk Assurance – Limited

Control Assurance – Limited

Key Findings

- A review by Internal Audit of the Section 101 Agreement against the actual operation and management of the GBCP highlighted non-compliance with the key documented terms and commitments. The main area of non-compliance was the absence of the regular quarterly Shared Service Board meetings (there has only been one confirmed meeting since the previous audit in 2016-17 to July 2019) to jointly and effectively manage the financial position, risks and performance of the shared service.
- The GBCP has maintained and consolidated its market share (approximately 76% for the period 2016-17 to 2018-19) of building control application numbers in the Gloucestershire area and the number of customer complaints is, in Internal Audit's opinion, at low levels (under 10 per year representing less than 1% of applications) providing some indication that the performance of the shared service is being managed satisfactorily.
- Since the formation of the GBCP it has, year on year, made a surplus, which as at 31st March 2019 represents a balance on the 'trading' account reserve account of £224,000 as per the Council's 2018-19 Statement of Accounts. This financial position is not in accordance with the Building (Local Authority Charges) Regulations 2010 Statutory Instrument No. 404 (Building Regulations) and the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which states that income and costs should achieve a 'break even' position normally over a rolling period of three to five years.
- Budget projections for 2019-20 and 2020-21 recently performed by GBCP and Finance indicates there will be a significant reduction in the 2018-19 reserve account surplus.
- A financial statement at the end of each financial year setting out the costs, income and any surplus or deficit position has not been published by the GBCP since its formation in accordance with Building Regulations.
- Other issues identified by Internal Audit related to the lack of regular completion of timesheets by officers, inappropriate cost apportionment method, no independent oversight of the monthly income reconciliation and incomplete income debt recovery processes.

Conclusion

There is a governance framework, as detailed in the Section 101 Agreement, however it is not operating as intended. On a day to day operational basis the GBCP has functioned satisfactorily in that its market share has remained stable, complaints concerning the service are at low levels and the 'trading' account is not in a deficit position.

Similar findings were identified by Internal Audit in its previous review in 2016/17 and five medium priority recommendations were raised, which at the time were agreed for implementation by management. The 2016/17 recommendations have not been or have only been partially implemented - therefore the recommendations have been reiterated and refocused with their importance increased under this latest review.

Going forward it is important for the partners to honour their obligations to jointly manage and monitor the risks, performance and financial position of the shared service and ensure compliance with the Section 101 Agreement and Building Regulations.

Management Actions

Internal Audit has raised four high and five medium priority recommendations to strengthen the governance arrangements and ensure compliance with the Section 101 Agreement and Building Regulations, which have been agreed by management.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Freedom of Information Act

Background

The Freedom of Information (FOI) Act 2000 provides members of the public access to information that is held by local authorities.

The Act does this in two ways:

- The Council is obliged to publish certain information about its activities; and
- Members of the public are entitled to request information from the Council.

The FOI requests for 2019 total 420 as at the date of audit.

Scope

This audit reviewed the effectiveness of the control environment for handling information requests to ensure that the Council is able to fulfil its legal obligations.

Risk Assurance – Substantial**Control Assurance – Satisfactory****Key Findings**

Documented procedures are in place and these detail the end-to-end process for dealing with FOI requests. The control procedure for authorisation to release information does however require an update as a result of retirement of the Ex-Director of Customer Services.

Sample testing of five FOI requests, provided good evidence that the FOI process was embedded and the controls were operating effectively. Requests were responded to correctly within the 20 working day limit in line with Section 45 Code of Practice per the FOI Act 2000.

Suitable procedures were found to be in place for:

- Refusal of a FOI request, if the cost limit of £25 per hour is exceeded; and
- An appeal process, that includes routes for an internal and external review to be undertaken.

A walkthrough test of the above two procedures confirmed that the controls were operating as intended. It was noted that the FOI control register template could be enhanced through the addition of an additional data field to capture the internal review response to the requestor.

Evidence of regular monitoring controls for the answering of FOI requests within the 20 working day limit are in place and a walkthrough test confirmed the process was operating as intended.

Staff training and development would benefit from a refresh focusing on:

- Statutory requirements detailed in the Freedom of Information Act;
- Internal administration; and
- FOI champions who are responsible for identifying the information source so that responses to requests can be completed.

Council performance for Freedom of Information requests is not currently published on the website. Introduction of a quarterly reporting procedure to comply with section 45 of the Freedom of Information Act 2000 to disclose performance will need to be put in place to ensure compliance with this requirement.

Conclusion

Audit findings show that the existing control environment for the Freedom of Information process is substantially in place. Four recommendations for i) updating FOI procedures; ii) FOI register documentation of internal reviews; iii) refresh and implement staff training and development; and iv) publishing FOI performance for handling information requests on the transparency page of the website, will further enhance the current procedures and controls in place.

Management Actions

All four recommendations have been accepted, and will be fully implemented by 30th June 2020.

Service Area: Finance

Audit Activity: Medium Term Financial Plan

Background

The Council's Medium Term Financial Plan (MTFP) sets out the Council's financial position for the next four years covering the period from 2019/20 – 2022/23. The MTFP is integral to the Council's financial planning since it forecasts how it will remain financially resilient as an organisation.

Scope

This internal audit review examined the robustness of the governance structure, assumptions, and compilation process used for the development of the Council's Medium Term Financial Plan. It has focused on the principles applied to the development of the general fund MTFP (as opposed to the detail, which results in the actual sums included in the MTFP). The review has considered the arrangements that support and ensure a medium term financial strategy that delivers on the funding and organisational challenges summarised in the feedback from the Local Government Association Corporate Peer Challenge (Peer Challenge).

Risk Assurance – Substantial**Control Assurance – Satisfactory****Key Findings**

A number of the key outcomes and actions from the Peer Challenge, that impact on future funding plans, have been examined and tested as part of this internal audit review. Through the review of key documents presented to Members, explanations provided by the Strategic Director of Resources and sample testing where appropriate the audit review has established that:

- There is clear evidence of the influence and links between corporate priorities and future funding.
- The MTFP development process includes the engagement of stakeholders in establishing and meeting funding need.
- Sound principles are applied when developing the assumptions made in reaction to base funding sources and costs.
- There is consideration of the funding impacts, and focus resulting from the review, development and change of service delivery arrangements.
- Clear consideration is made in the development of the capital programme to supporting revenue funding (invest to save) and the links to the delivery of corporate priorities.
- The approach to the development of the borrowing, investment and the reserves strategy supports the funding requirements.
- Commercialisation opportunities are being considered to support the delivery of corporate priorities and future funding demands.

Collectively, the actions taken and those planned demonstrate how the Council's funding plans link to and support the delivery of its corporate objectives and priorities.

Confirmation was also gained that the MTFP complies with the requirements of Financial Regulations.

Conclusion

The MTFP demonstrates how the Council plans for its future funding needs and how these needs will be met. Elements of the funding plan, particularly for future years is uncertain being determined by national actions. The assumptions and projections

used in the MTFP stem from the best available information at each iteration of the plan and are in line with those made by other Councils.

For the elements of the MTFP where the Council has direct control for example how it responds to cost pressures and plans to make savings and generate income, these are clear and will be developed further in coming years. The MTFP is a summary statement which demonstrates the generation and movement in funds and costs (including the use of reserves) this summary statement is supported by Member approved actions and plans. The review of reserves and their use over the life of the current MTFP in supporting the annual budget offers the opportunity to implement the transformation agenda which will impact and influence future funding plans.

The actions taken by the Council following the Peer Challenge show an increasingly strong link between its future funding plans and its aims, objectives and priorities. In addition, recent strategies, policies and actions have clarified and reinforced the links between corporate planning, its change initiatives and future funding.

At present the Corporate Delivery Plan is short term. As the vision, plans and priorities look to the longer term the degree of certainty of supporting funding as detailed in the MTFP will need to increase. The Council has evidenced a strong awareness of the future funding risks and challenges, and has implemented actions to start to address these, and has a clear direction of travel.

The audit opinion has been based on risk identification and risk control, the latter being an assessment of the actions being taken and those planned. No recommendations have been made as there is a clear development and improvement path in place.

Management Response

Management welcomes the assurance gained from the internal audit review and report.

Service Area: Customer Services

Audit Activity: Multi Services Contract

Background

The multi services contract provides for the provision of waste and recycling, street and building cleaning, grounds maintenance, fleet management and maintenance

services.

The total cost for the contracted services for the financial year 2018-19 was approximately £5,700,000.

During 2017-18 Internal Audit undertook a consultancy review, to advise upon the effectiveness of the Council's contract management and monitoring arrangements. The findings emanating from the review resulted in a number of recommendations being made in order to strengthen the governance, financial, performance and risk management arrangements.

A follow-up to the consultancy review of the multi services contract was performed by Internal Audit during 2018-19 where a limited assurance opinion was given for the control environment and the risk identification maturity due to the lack of progress in implementing the recommendations. The Head of Community Services provided an update to the January 2019 Audit and Standards Committee confirming that the recommendations had either been implemented or that significant progress was being made to their resolution.

In light of the above, a full review of the effectiveness of the contract management and monitoring arrangements was scheduled as part of Internal Audit's work plan for 2019-20.

Scope

This review sought to determine the effectiveness of the current contract management and monitoring arrangements.

The specific objectives of the audit were to provide assurance on the following areas:

- Governance arrangements are appropriate and effective;
- Risks have been identified and are being effectively managed;
- The costs of the service are being controlled and effectively managed;
- The service provision is being effectively managed and any changes are subject to formal evaluation, review and approval;
- Performance measures have been determined, results regularly reported and effectively monitored and managed; and
- To review whether the five high and four medium priority recommendations emanating from the 2017-18 consultancy have now been fully implemented.

Risk Assurance – Satisfactory**Control Assurance – Satisfactory****Key Findings**

- Terms of reference for the operational, management and local board meetings have been formally documented and appropriately approved.

In addition Internal Audit obtained evidence of the regular meetings, which are minuted.

- Community Services management has identified and is confirming Ubico Ltd compliance with key actions / requirements as detailed within the contract with the exception of insurance arrangements, Disclosure and Barring Service (DBS) and Council policies.
- Operational risks relating to the service have been identified by Community Services management and Ubico Ltd, and these have been recorded in either the Council's risk and performance management system Excelsis or the Ubico Ltd risk register to ensure visibility and regular monitoring.
- Ubico Ltd provided appropriate timely financial information to Finance and Community Services management as part of the Council's 2019-20 and 2020-21 budget setting process, which has been subject to challenge, verification and subsequent agreement (2019-20). In addition detailed monthly financial reports are being provided by Ubico Ltd to Finance and Community Services management detailing the actual financial position of the multi services contract against the agreed budget, which have been subject to scrutiny and challenge.
- The 2019-20 financial year-end forecast as at October 2019 indicates that the total actual spend will be within the approved budget. However, the accuracy and effectiveness of the monitoring of actual spend and budgets cannot be fully substantiated until Ubico Ltd provides details in April 2020 of the Council's actual 2019-20 year-end financial position.
- The Communications Protocol between the Council and Ubico Ltd has been formally developed following the 2017-18 consultancy review recommendation. However, it requires further work to detail Ubico Ltd officers with appropriate delegated authority to approve service provision variations.
- A review of the service provision variation register for 2019-20 and a sample of 15 variation schedules selected by Internal Audit identified approval omissions in the register and schedules.

- The April 2019 Strategy and Resources Committee were informed that the Environment Committee would receive regular updates on the progress of 17 recommendations raised in the June 2018 Association of Public Service Excellence (APSE) independent report of the Council's waste and recycling service. However, there have been no formal updates at the point of this audit and the item is not included within the Committee work programme.
- Nine key performance indicators (KPIs), approved by the April 2019 Environmental Services Partnership Board (ESPB), are monitored by Community Services management monthly and presented by Ubico Ltd to the quarterly ESPB for scrutiny and challenge. However, other performance measures such as Community Services officers' independent inspections of Ubico Ltd service provision performance and health and safety compliance, complaints and the results of the annual APSE benchmarking exercise have also not formed part of the performance reporting.
- Internal Audit obtained assurance from discussions with Community Services management and audit review / testing that the five high priority recommendations and one out of the four medium priority recommendations had been implemented. Further work is required by Community Services to fully implement the three remaining recommendations relating to assurances over the Ubico Ltd business continuity plan, review and update of the service specification and clarity and reporting of KPI results and targets.

Conclusion

The current Community Services management and officers, who took over the responsibility for management of the multi services contract during 2018-19, have with the support of Finance, improved the working relationship between the Council and Ubico Ltd.

The control framework and operating effectiveness has been strengthened through the implementation of Internal Audit's 2017-18 high priority recommendations, with improvements in the Ubico Ltd financial reporting and Council scrutiny. Work is still ongoing to fully implement the remaining three medium priority recommendations relating to Ubico Ltd business continuity arrangements, service specification and KPI reporting.

In light of the findings emanating from this review, Internal Audit is able to report a positive shift in the audit opinion for the risk identification maturity and the control environment from a previous limited assurance opinion to satisfactory assurance, in both instances.

Management Actions

Internal Audit has raised five additional medium priority recommendations relating to contract management compliance, Ubico Ltd service variation delegated authority levels, monitoring of service variations, APSE recommendations update, and performance reporting and management to further enhance and strengthen the control environment, which have been agreed by Community Services management.

Summary of Substantial Assurance Opinions on Control

Service Area: Customer Services

Audit Activity: Council Tax Support Scheme

Background

For the 2019/20 financial year, the central government protocol is operated by the authority under the Council Tax Reduction Scheme Regulations 2018. The Council Tax Support Scheme which operates is split into two categories; i) working age persons and ii) those residents with pensioner status.

The Council administer the award of Council Tax Support (CTS) through the Revenue and Benefits IT system (Civica). At the date of audit, the financial value of CTS for the year is expected to be £5.8m.

Scope

The objective of this audit was to consider whether there are effective arrangements in place, for administering the 2019/20 Council Tax Support Scheme.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The review of the Civica IT parameters, confirms that they were correctly set at the start of the 2019/20 year in compliance with details received from the Department of Works and Pensions and the Council Tax Reduction Scheme Regulations 2018;
- Enquiries and evidence reviewed from a sample of: (i) five existing; ii) five new in-year; and iii) five claimants with a change in circumstance confirmed that claimant applications for Council Tax Reduction are being correctly assessed

and the awards are financially accurate; and

- The Council Tax Support appeal process was reviewed to assess its thoroughness through audit walkthrough of a case where the Council offered an individual claimant the opportunity to request the Valuation Office Tribunal Service to make a final ruling. The audit findings verified that the appeal process was suitably documented and complete.

Conclusion

The results from audit testing demonstrate that there are effective arrangements in place to administer the Council Tax Support Scheme, in compliance with the Council Tax Reduction Scheme Regulations 2018.

Substantial assurance for risk identification maturity and control environment can be given.

One recommendation has been made, with the objective of strengthening the existing control environment for reporting a change of claimant circumstance.

Management Actions

Internal Audit has raised one medium recommendation for the website's Council Tax Support pages to include the need for claimants to inform the Council of change of circumstance effective dates.

Management has responded positively to the recommendation, and confirmed that this will be implemented by December 2019.

Service Area: Customer Services

Audit Activity: Small Business Rate Relief

Background

Businesses are eligible for Small Business Rates Relief (SBRR), dependent upon the rateable value of the property occupied.

For a qualifying property with a rateable value of up to £12,000 the rate relief is 100%. The percentage then decreases on a sliding scale up to a rateable value of £14,999.

The budgeted aggregate total of SBRR for 2019/20 is £4.3m, as reported to the

Department of Communities and Local Government (DCLG).

Scope

This review assessed whether there are effective arrangements in place for administering the SBRR scheme.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- A compliance test to check that the IT parameters data input in advance of creating the 2019/20 billing demand notices was completed and found to be correct.
- Testing of SBRR was completed for: i) new property; ii) change of circumstance; and iii) reconciliation of the Valuation Office records with the Civica system, and confirmed that the correct procedures and controls were in place.
- Sample testing the collectability of outstanding debts for accounts with an annual rateable value in excess of £12,000, confirmed that either debt payment plans were up to date or appropriate debt recovery procedures had been used.
- Review of the website template application form for SBRR indicates that a refresh is required so that it includes a complete record to assess claims.
- The annual billing demand supporting guidance template needs updating in the "Relief and Exemption" section.

Conclusion

An extensive review of the control environment shows that all significant key controls are in place and are operating effectively. Two recommendations have been raised with a view to enhancing the collection of data and available information about the scheme with regard to the: i) website template application form for SBRR; and ii) annual billing demand supporting guidance.

Management Actions

Management have fully accepted the two audit recommendations made.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 2nd January 2020 only one new irregularity has been referred to Internal Audit in 2019/20 and this has previously been reported to the Audit and Standards Committee.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

Any counter fraud activity undertaken by the Counter Fraud Unit (CFU) will be reported separately by the Strategic Director of Resources.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The 2018/19 data collections were successfully uploaded to the Cabinet Office during October 2018 and data matching reports are now available for review. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

The CFU have been commissioned by the Strategic Director of Resources to review the NFI data matches and the outcomes from this review will be reported to the Audit and Standards Committee once completed.

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	ICT Action Plan	1	Planned				Brought Forward from 18/19 plan.
Council Wide	Annual Governance Statement review of 2018-19 assurance statements	1	Audit in Progress				
Council Wide	Freedom of Information	2	Final Report Issued	Substantial	Satisfactory	28/01/2020	
Council Wide	Local Government Association Peer Review	1	Planned				
Council Wide	Risk and Performance Reporting	1	Planned				
Council Wide	LGA and Workforce Plan transitional arrangements	2	Planned				
Council Wide	Capital Programme	1	Planned				
Development Services	Gloucestershire Building Control Partnership	2	Final Report Issued	Limited	Limited	28/01/2020	
Development Services	Planning Applications	1	Planned				
Development Services	Private Sector Housing (empty homes)	2	Audit in Progress				
Customer Services	Business Continuity	1	Consultancy				Brought Forward from 18/19 plan. Consultancy ongoing within 2019/20. Outcomes to be reported at year end.
Customer Services	Council Tax Support Scheme	2	Final Report Issued	Substantial	Substantial	28/01/2020	
Customer Services	Complaints Handling	2	Planned				
Customer Services	Creditors - New Suppliers, Vendor Changes and Invoice Control	1	Audit in Progress				
Customer Services	Small Business Rate Relief	2	Final Report Issued	Substantial	Substantial	28/01/2020	
Customer Services	Multi Services Contract	1	Final Report Issued	Satisfactory	Satisfactory	28/01/2020	
Finance	Medium Term Financial Plan	1	Final Report Issued	Substantial	Satisfactory	28/01/2020	
Finance	VAT Outputs	2	Final Report Issued	Satisfactory	Satisfactory	08/10/2019	
Tenant & Corporate Services	HRA Delivery Plan - Budget Savings	1	Planned				
Tenant & Corporate Services	Housing Stock Void Management	2	Final Report Issued	Satisfactory	Satisfactory	08/10/2019	
Tenant & Corporate Services	Leavers Process	1	Audit in Progress				
Tenant & Corporate Services	Littlecombe Scheme	2	Draft Report Issued				
Tenant & Corporate Services	Local Government Transparency Code	2	Final Report Issued	Satisfactory	Satisfactory	08/10/2019	

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

7

Report Title	COUNTER FRAUD UNIT REPORT			
Purpose of Report	To provide the Audit and Standards Committee with assurance over the counter fraud activities of the Council in relation to the work undertaken by the Counter Fraud Unit (CFU). The report is presented to the Audit and Standards Committee detailing progress and results for consideration and comment as the body charged with governance in this area.			
Decision(s)	The Committee RESOLVES to note the report and the work of the Counter Fraud Unit in fraud investigation			
Consultation and Feedback	Work provision for 2019/2020 was agreed with the Strategic Director Resources			
Report Author	Emma Cathcart, Counter Fraud Manager Tel: 01285 623356 Email: Emma.Cathcart@cotswold.gov.uk			
Options	None. The CFU is a specialist criminal enforcement service working with all of the Gloucestershire Local Authorities, West Oxfordshire District Council and a number of other public sector bodies such as housing associations.			
Background Papers	None.			
Appendices	None.			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	Yes	No

1. INTRODUCTION / BACKGROUND

- 1.1. The Audit and Standards Committee oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to counter fraud activity.
- 1.2. A summary of the work undertaken since 1 April 2019 is presented to the Audit and Standards Committee detailing progress and results for consideration and comment as the body charged with governance in this area.

2. MAIN POINTS

- 2.1. As a dedicated investigatory support service, the CFU undertakes a wide range of enforcement and investigation work according to the requirements of each Council. This

includes criminal investigation and prosecution support for enforcement teams, investigations into staff/member fraud and corruption, or tenancy and housing fraud investigation work.

- 2.2. The CFU has been tasked with undertaking the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support), working closely with the Department for Work and Pensions in relation to Housing Benefit investigations. The team has received 7 referrals and closed 7 cases. This has resulted in the following results:
 - 1 successful Prosecution: the defendant pleaded guilty and received a 6 month custodial sentence suspended for 18 months. Additionally they were ordered to pay £929 in costs. The increased Council Tax revenue or fraudulently claimed Council Tax Support totalled £5,081.
 - 3 Civil Penalties and 2 Criminal Penalties have been applied totalling £958 and increased Council Tax revenue of £2,663 has been raised.
- 2.3. All Local Authorities participates in the Cabinet Office's National Fraud Initiative, which is a data matching exercise to help prevent and detect fraud nationwide. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under Data Protection Legislation. The CFU have been assisting the Revenues and Benefits Department with the review of any National Fraud Initiative (NFI) matches as directed by management and any results will be reported at a future date.
- 2.4. The CFU continues to support the Council in tackling tenancy fraud. The overall remit of the CFU is to prevent, detect and deter abuse of public funds and social housing.
- 2.5. Housing and tenancy fraud remains as one of the top four areas of fraud and abuse within the public sector. This takes many forms but the two most significant areas are Right to Buy and Illegal Subletting. The CFU will continue to work with the Council to tackle this effectively.
- 2.6. The Counter Fraud Officers are authorised under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014. This means they are authorised to obtain information relating to an individual from organisations such as financial institutions (banks, credit card companies), utility companies, communications providers and so on. The Act also created new offences in relation to housing fraud that can be prosecuted by Local Authorities acting on behalf of Social Landlords.
- 2.7. The CFU have received 7 referrals and closed 2 cases resulting in 2 Right to Buy applications being withdrawn.

3. CONCLUSION

- 3.1 The Council were fully supportive of the original Counter Fraud Unit project and funding bid and the CFU is now delivering financial results in this area.

4. IMPLICATIONS

4.1 Financial Implications

- 4.1.1 There are no financial implications arising directly from this report. The report detail includes savings generated through Counter Fraud work.
Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk

4.2 Legal Implications

- 4.2.1 In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.

Patrick Arran, Interim Head of Legal Services and Monitoring Officer
Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk

4.3 Equality Implications

- 4.3.1. The promotion of effective counter fraud controls and a zero tolerance approach to internal misconduct promotes a positive work environment.
- 4.3.2. The application of these Policies, to govern surveillance and the obtaining of personal communications data, ensures that there is less risk that an individual's human rights will be breached. Furthermore it protects the Council from allegations of the same.

4.4 Environmental Implications

- 4.4.1. There are no significant implications within this category.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

8

Report Title	INTERNAL AUDIT PURPOSE, AUTHORITY, ROLE AND FUNCTION
Purpose of Report	Regulation and mandatory auditing standards require the Chief Internal Auditor to periodically review and present the Internal Audit Strategies to Senior Management and the Audit and Standards Committee, to provide assurance that the Internal Audit function operates in accordance with professional standards.
Decision(s)	The Committee APPROVES the: a. Internal Audit Strategy b. Internal Audit Data Analytics Strategy c. Internal Audit Charter d. Internal Audit Code of Ethics e. Internal Audit Quality Assurance and Improvement Programme (QAIP)
Consultation and Feedback	ARA Shared Services Board, Senior Leadership Team.
Financial Implications and Risk Assessment	There are no direct financial implications arising from this report. Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit Service in line with the PSIAS will prevent an independent, objective assurance opinion to be provided to those charged with governance, that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
Legal Implications	Whilst the requirement to have an effective audit requirement is a legal necessity, there are no specific legal implications arising from the recommendations in this report which are required to comply with PSIAS requirements. Patrick Arran, Interim Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance (ARA) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	There are no further options that can be considered as the attached is required by regulation and professional auditing standards.
Performance Management Follow Up	The strategies are reviewed annually by the Head of ARA and the Internal Audit service performance against the standards is reported quarterly to Audit and Standards Committee.

Background Papers/ Appendices	Appendix A: Internal Audit Strategy Appendix B: Internal Audit Data Analytics Strategy Appendix C: Internal Audit Charter Appendix D: Internal Audit Code of Ethics Appendix E: Internal Audit Quality Assurance and Improvement Programme (QAIP)
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1.0 Background

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:

“...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.” (i.e. the Public Sector Internal Audit Standards (PSIAS) 2017 as reflecting proper internal auditing practice).

The Standards encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) i.e. the Definition of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing and define the way in which the Internal Audit Service should be established and undertake its functions.

Additional requirements and interpretations for Local Government are published via the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (LGAN) for the UK PSIAS (2019 Edition).

The Standards require all internal audit functions to implement and retain:

1. **Internal Audit Strategy:** sets out how the service will support and promote improvement and good governance, which is underpinned by the Internal Audit Charter.
2. **Internal Audit Data Analytics Strategy:** This strategy underpins our Internal Audit Strategy to incorporate data analytics in our Internal Audit reviews (where appropriate/relevant) to provide further intelligence over entire populations and help to identify key emerging themes and risks. This will also provide management with contextual perspective of audit findings.’
3. **Internal Audit Charter:** is to formally define Internal Audit’s statutory role, authority, purpose, responsibility and position within SDC.
4. **Internal Audit Code of Ethics:** is a statement of principles and expectations governing the behaviour of individuals in the conduct of internal auditing.
5. **Internal Audit Quality Assurance and Improvement Programme (QAIP):** enables an evaluation of the internal audit activity’s conformance with the IPPF, Definition of Internal Auditing and Standard 1300 (QAIP) within the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity.

Internal Audit Strategy 2019 - 2022



Contents

Introduction and Mission Statement

1

Key components of the Internal Audit Strategy

2

Provision of the service

3

Appendices

1. Initiatives and efficiency proposals
2. Compliance with regulation and professional standards



(1) Introduction and Mission Statement

Introduction

This document sets out our Internal Audit Strategy (IAS) for the next three years. The IAS sets out how the service will support and promote improvement and good governance, which is underpinned by the Internal Audit Charter (IAC) which describes the purpose, authority, responsibility and position of the Internal Audit (IA) Service within Gloucestershire County Council, Gloucester City Council, Stroud District Council and external clients, our Code of Ethics and our Quality Assurance and Improvement Programme (QAIP) which includes our key performance indicators to monitor performance and demonstrate success.

Our Mission Statement

IA has adopted the following Mission Statement:

A collaborative partnership delivering a modern, innovative, customer focused service aligned to business needs to enhance and protect organisational value by providing risk based, independent and objective assurance, consulting activity, advice and insight.

In delivering this Mission Statement IA will:

- Produce and deliver an Annual Risk Based Internal Audit Plan which complies with the Public Sector Internal Audit Standards (PSIAS);
- Provide the statutory Chief Internal Auditor's Annual Opinion on the organisation's internal control, risk management framework and corporate governance arrangements;
- Provide progress reports to the Audit Committees / Boards which highlight any significant risk and control deficiencies or potential areas for improvement in the organisation's governance, risk and control arrangements; and
- Support and suitably challenge key assumptions and judgments taken by management, through IA's assurance and advisory services, to ensure they are appropriate and in accordance with relevant legislation, policies and procedures, guidance and professional standards.

(2) Key components of the Internal Audit Strategy

Our core values which underpin the delivery of our mission

- Customer focus:** To remain aware of the needs and requirements of all of our stakeholders in providing the optimum customer experience, to inspire respect, confidence and trust and to treat colleagues and customers with **respect** and understanding.
- Quality:** Quality and **excellence** is 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. Our aim is to provide a service that remains responsive to the needs of our customers and maintains consistently high standards. Staff are fully **empowered** to achieve the best possible outcomes and are **accountable** for their actions and take responsibility for their decisions.
- Experience:** All of our staff and commissioned consultants are professionally qualified, are fully conversant with relevant industry standards / practices and have significant knowledge, experience and understanding of the requirements of auditing in a public sector environment. This provides a unique insight into sector risks (existing and emerging), challenges, opportunities and good practice that informs our work. Continuing Professional Development is a fundamental part of our staff development strategy.
- Flexible:** We operate with a multidisciplinary team to provide a seamless and responsive service in meeting our partner and clients' needs.
- Resilient:** ARA provides resilience in both strength and depth. We continue to 'grow our own' by the ongoing implementation of our Trainee Auditor programme, to support succession planning.
- Agile working:** We work with our clients to build trust; develop common understanding and take collective action to improve organisational priorities and outcomes; and be a trusted advisor to strategic management and the Audit Committees / Boards.
- Growth:** We maximise income generation through the continuous exploration of opportunities.

Key components of the Internal Audit Strategy

Measurements of success

The PSIAS are clear that IA should be adding value to an organisation. This will be achieved primarily through the delivery of our QAIP, which includes staff, team and service Key Performance Indicators (KPIs). Value will also be added via the provision of consultancy services and risk and control advice.

Our key service KPIs

- 85% achievement of the Annual Internal Audit Plans for each partner and client.
- 100% PSIAS compliance achievement (assessed through internal annual review and External Quality Assessment every 5 years).
- 80% of client satisfaction surveys rated the service as good or better.
- 90% of all recommendations accepted and implemented.

Performance monitoring

- The Internal Audit Plan is agreed by the relevant Audit Committees / Board annually and ongoing delivery is monitored by them.
- Individual audit assignments will be recorded and monitored in detail within a Performance Management System and used for monitoring and reporting service performance.
- The in-house teams' individual performance will be regularly assessed, monitored and supported through personal development reviews, 121s and team meetings. In addition, auditors self evaluate their own performance at the end of each activity, implementing any lessons learnt identified.
- Our co-sourced providers' performance is monitored through contractual KPIs and contract management meetings.
- Client satisfaction survey responses reviewed and improvement actions implemented as necessary.

Key supporting documents

Our key strategic documents for each partner and client include the:

- IAS (including our Mission Statement);
- Internal Audit Charter, QAIP and Code of Ethics;
- Corporate (Audit) Committee Terms of Reference;
- Corporate Risk Management Policy Statement and Strategy;
- Corporate Counter Fraud and Corruption and Anti Bribery Policy Statement and Strategy;
- Annual Risk Based Internal Audit Plan; and
- Internal Audit Manual (our operating procedures).

(3) Provision of the service

The IA Service has defined processes for the planning, delivery, monitoring and reporting of internal audit work. This includes quality assurance arrangements in place for the review and approval of reports before issue. The Chief Internal Auditor will provide an Annual Internal Audit Opinion to those charged with governance timed to support the Council's Annual Governance Statements. The Annual Internal Audit Opinion includes the statutory opinion on the overall adequacy and effectiveness of the Council's system of internal control, risk management framework and corporate governance arrangements.

The service structure provides client portfolio leads and a multidisciplinary team, which enables us to work collaboratively, focus on the areas that matter to our partners and clients, which supports continuous improvement.

IA Resources

Internal Resource (staff rotated / located across all partner and client sites)

Our current Internal Audit structure comprises of 19.01 FTE

- 0.8 FTE Head of Audit Risk Assurance (Chief Internal Auditor)
- 1 FTE Group Manager
- 3.86 FTE Principal Auditors
- 2.6 FTE Principal Auditors / Counter Fraud Specialists
- 4.15 FTE Senior Auditors
- 3 FTE Trainee Auditors
- 2.0 FTE Audit/Risk Technical Officers
- 0.7 FTE Senior Risk Advisor

External Resource

- 0.6 FTE ICT Audit
- 0.3 FTE Internal Audit Provider

Appendix 1: Key Principles

We will:

- Continue to promote the three lines of defence risk assurance model.
- Continue to focus our resources on risk.
- Support risk management and encourage risk appetites to be defined via our risk management service offer.
- Align our proposed recommendations to risk appetites.
- Apply a process for identifying “root causes” of problems or events and an approach for responding to them.
- Continue to develop and promote the requirements of the Counter-Fraud and Corruption Strategy.
- Undertake the investigation of any reported irregularity issues and identify actions to improve controls.
- Contribute to the development of an assurance framework and map to support the development of our Annual Internal Audit Plan.
- Ensure that audit recommendations proposed are proportional to the risk exposure.
- Follow up high priority recommendations made and undertake follow up reviews where a limited assurance opinion on the control environment is provided.
- Consider (where relevant and appropriate) incorporating data analytics into our Internal Audit reviews to provide further intelligence over entire populations.
- Continue to promote and embed collaborative working arrangements with management and external partners / regulators.
- Take time to reflect on our current overall structure, capacity, skills and expertise needed and service offer to ensure that we continue to be a trusted partner who provides a credible, resilient, sustainable, value added and flexible service.

Appendix 2: Compliance with regulation and professional standards

Accounts and Audit (England) Regulations 2015

We will oversee and/or discharge on behalf of the Council the requirements of the Accounts and Audit Regulations 2015, which require the Council to ‘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’.

Public Sector Internal Audit Standards (PSIAS) 2017

We will ensure that our IA service adheres to the PSIAS and the Local Government Application Note for the UK PSIAS. Our last independent Review of Effectiveness (2015) confirmed that we did conform to the Standards (only minor observations were noted which have now been implemented). We perform annual assessments of adherence and report on this as part of our Annual Internal Audit Opinion.

International professional standards framework

Our IA service will operate in adherence to the International Standards for the Professional Practice of Internal Auditing.

Audit Committees / Boards

IA will support the Audit Committees and Boards as key stakeholders in accordance with their terms of reference which are in line with the requirements of the Accounts and Audit Regulations and the PSIAS.

Data Analytics Strategy

2019 - 2022



Contents

Introduction and Vision

1

Tools and Techniques

2

Data Analytics Maturity
Model

3

ARA's Objectives

4



(1) Introduction and Vision

Introduction

The volume of digital data received, processed and produced across all organisations is significant and increasing. Consequently the traditional approach to Internal Audit sampling and testing within a growing and complex populace of data requires consideration of alternative testing methodologies to ensure we continue to provide credible audit findings, in line with the General Data Protection Regulation (GDPR).

It is imperative that to maintain effective oversight and confidence in the assurance provided Internal Audit need to adapt and align our approach and skills set to best meet the challenges posed through modern and evolving ways of working.

Data analytics is a critical tool to add to the auditors' toolkit to assist in the credibility of assurance work and the maximisation of added value in a modern and forward looking organisation.

Data analytics has a range of alternate definitions, however it can be summarised as the science of analysing raw data in order to make conclusions about that information. Data analytics involves applying an algorithmic or mechanical process to derive insights. For example: running through a number of data sets to look for meaningful relationships between them.

This strategy outlines how Audit Risk Assurance (ARA) aims to practice the use of data analytics to address the challenge posed by the digital approach currently being adopted by our partners and to maximise added value in its assurance to our partners and organisations we serve.

This strategy underpins our Internal Audit Strategy and Vision i.e. *'We will incorporate data analytics in our Internal Audit reviews (where appropriate/relevant) to provide further intelligence over entire populations and help to identify key emerging themes and risks. This will also provide management with contextual perspective of audit findings'* and also supports conformance with the Public Sector Internal Audit Standard (1220.A2): *'in exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques'*.

(2) Tools and Techniques

While it is management’s responsibility to ensure that risks are appropriately mitigated, Internal Audit can use data analytics to identify areas or transactions where controls may not / do not exist or are not / may not be operating effectively.

The effective use of data analytics can provide significant benefits to Internal Audit and the wider organisation through increased efficiency and effectiveness across a range of key areas.

To effectively implement and maximise the full potential of data analytics, it is essential to invest in the following to deliver the required outcomes:

Knowledge ensure that relevant Internal Audit staff are appropriately trained in the effective design, development and implementation of data analytical techniques, querying and manipulating data and validating hypotheses.

Soft skills communication and interpersonal skills to articulate and visualise insights gained from analysis.

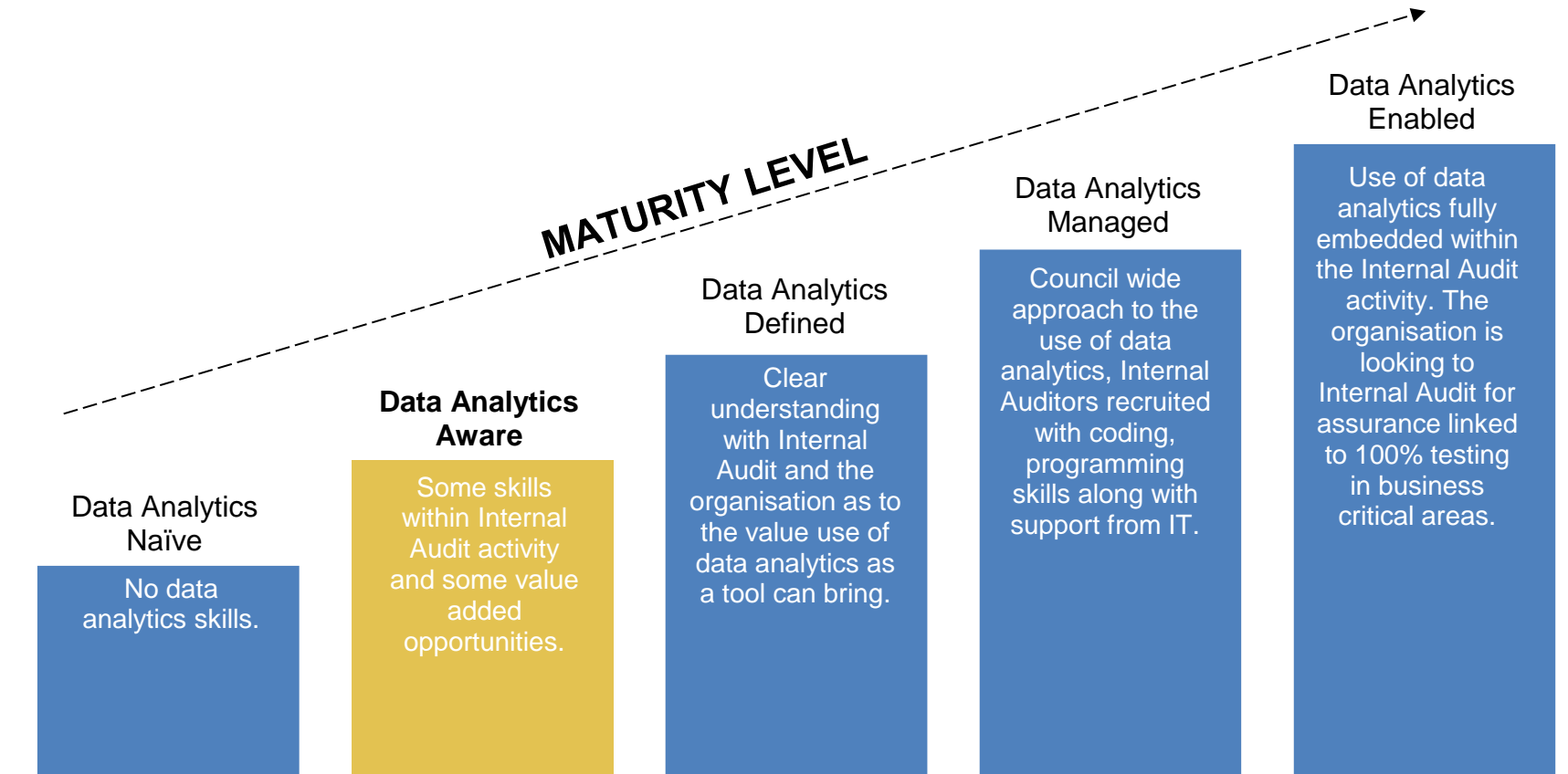
Technology effective use of CAATs (Computer Assisted Audit Techniques) to automate elements of the audit process to increase credibility of audit results, by sampling from a wider population base.

Service Delivery acceptance and understanding of how technology can be leveraged to identify and analyse business problems to ensure the achievement of objectives.



(3) Data Analytics Maturity Model

ARA’s maturity can be measured on a sliding scale from a ‘Data Analytics Naïve’ at one end of the scale to embedded ‘Data Analytics Enabled’.



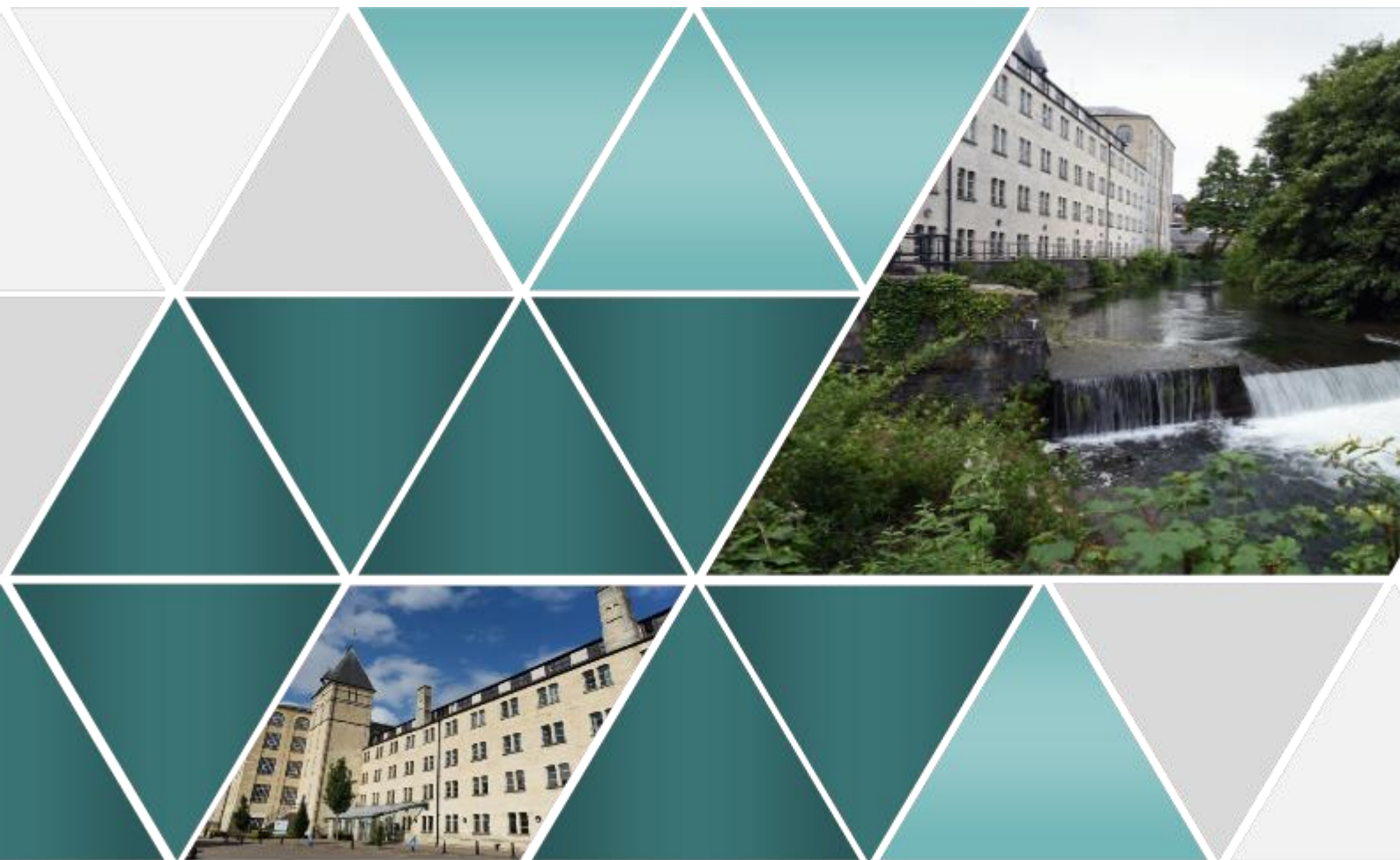
The chart depicts the current assessment of ARA’s maturity as ‘Data Analytics Aware’. Progression across the maturity chart relies heavily on the appetite of the organisation to embrace data analytics. Internal Audit alone will not realistically be able to achieve ‘Data Analytics Enabled’ operating in isolation; however, the drive to ‘Data Analytics Defined’ is our primary initial focus, working with our partners to establish the appetite for a council wide approach.

(4) ARA's Objectives

Objective	Outcome (ARA's Quality and Assurance Programme to include key indicators of success)	Target Date	Action Owners
To build expertise in the discipline of data analytics to provide added value across our partner organisations.	Expertise developed within ARA in the effective use and management of data analytics to be used flexibly across our partner organisations.	December 2020	Head of ARA / ARA Group Manager
To optimise the use of data analytics to increase the credibility of audit observations through extended and/or 100% sampling.	To provide credible / robust observations to management to contribute towards the delivery of organisational objectives.	Considered for every audit activity	Head of ARA / ARA Group Manager
To utilise data analytics to enhance data matching capabilities to help identify and combat fraud and irregularity.	To identify and deter fraudulent activity across the organisations in accordance with zero tolerance policies.	Considered for every counter fraud activity	Head of ARA / ARA Group Manager
To utilise data analytics to enhance strategic intelligence / risk assessment to inform the Internal Audit Plan and ensure the most effective use of audit resource.	Ensure the most efficient, effective use of Internal Audit resource through strategic assessment and analysis.	Annual Risk Based Internal Audit Planning	Head of ARA / ARA Group Manager
To embed data analytics as part of the standard audit process.	To embed a sustained approach to data analytics through the standard Internal Audit toolkit.	Ongoing	Head of ARA / ARA Group Manager
To support management (where relevant) auditing against risk 'hot spots' across the organisation.	To enable 'real time' auditing highlighting error, anomalies and control failure at the earliest opportunity.	Considered as part of proactive audit activity	Head of ARA / ARA Group Manager

INTERNAL AUDIT CHARTER

2019-2022



Contents

Introduction	1
IPPF’s Mission and Core Principles for Internal Audit Services	1
Authority	2
Purpose / Definition	2
Internal Audit Provision	2
Accountability / Responsibility	3
Position in SDC	3
Right of Access	3
Independence and Objectivity	4
Internal Audit Resources	6
Proficiency and Due Professional Care.....	6
Relationship with External Audit / Other Relevant Assurance Providers / Regulatory Bodies.....	7
Scope of Internal Audit Activities.....	7
Internal Audit Planning	9
Reporting	10
Management can assist the process of Internal Audit by:	12
Quality Assurance and Improvement Programme (QAIP).....	12

Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (PSIAS) 2017 provide a consolidated approach across the whole of the public sector enabling consistency, sound corporate governance and transparency.

The Standards encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) i.e. the Definition of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing and define the way in which the Internal Audit Service should be established and undertake its functions.

Additional requirements and interpretations for Local Government are published via the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the UK PSIAS (2019 Edition).

The Standards require all internal audit functions to implement and retain an ‘Internal Audit Charter’. The purpose of the Charter is to formally define Internal Audit’s statutory role, authority, purpose, responsibility and position within Stroud District Council (SDC).

IPPF’s Mission and Core Principles for Internal Audit Services

“...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

The “Core Principles” that underpin delivery of the mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

Authority

Accounts and Audit Regulations 2015

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:

“...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.” (i.e. the PSIAS 2017 as reflecting proper internal auditing practice).

Purpose / Definition

The Council’s three lines of defence / assurance model clarifies that management (as the first line) is responsible for owning, establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The second line refers to the oversight arrangements in place to confirm that the controls in the first line are operating effectively, with Internal Audit forming the third line, i.e. providing independent assurance that the first and second line of defence are operating effectively.

It is important to think of the internal auditor as the Council’s critical friend, someone who can challenge current practice, champion good practice and support management in improvement, so that the Council as a whole achieves its strategic outcomes, priorities and objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. The role of internal audit is best summarised through its mandatory definition within the Standards, as:

‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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’.

Internal Audit Provision

The Internal Audit Service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucestershire County Council (Host Authority), Gloucester City Council and Stroud District Council. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the ‘Mission’, ‘Core Principles’, ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

Accountability / Responsibility

The accountability for maintaining an adequate and effective system of internal audit within SDC as per the Constitution lies with the Strategic Director of Resources as the Council’s Section 151 Officer.

In addition, for the purposes of this Charter, the following definitions shall apply regarding accountabilities / responsibilities in relation to Internal Audit:

Definition	Details	Responsibility in relation to Internal Audit at SDC
The Board	The governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.	Audit and Standards Committee.
Senior Management	Those responsible for the governance / management of the Council.	Senior Leadership Team
ARA Shared Service Board	Oversees the strategic direction and performance of the Shared Service.	ARA Shared Services Board Member – Strategic Director of Resources

Position in SDC

The Chief Internal Auditor reports administratively to the Strategic Director of Resources and functionally to the Audit and Standards Committee, who are responsible for ensuring that there is a satisfactory standard of risk management, governance and internal control within the Council. In addition, the Chief Internal Auditor reports strategically to the ARA Shared Service Board, comprising of the three partner organisations Chief Financial Officers (s151 Officers) and/or their nominated deputies.

Right of Access

The Accounts and Audit (England) Regulations 2015 state that ‘*any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit (a) make available such documents and records; and (b) supply such information and explanations as are considered necessary by those conducting the internal audit*’.

The Chief Internal Auditor has the right of direct access to any Member or Officer of the Council including the Statutory Officers, i.e. Chief Executive, Monitoring Officer and the Chief Financial Officer (s151 Officer).

Where it is considered necessary for the proper discharge of the internal audit function, the Chief Internal Auditor has the right of direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit and Standards Committee), including private meetings without management present.

To provide independent assurances to senior management and the board, Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is granted full, free and unrestricted access to all personnel, documents, personal records, other records, assets, and premises, belonging to the Council and/or its key delivery partner organisations, as considered necessary for the purposes of the audit.

In addition, Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

If required, this access should not be subject to prior notice, which extends to partner bodies and external contractors working on behalf of the Council. Internal Audit's right of access to third parties should be reflected in contracts and service level agreements.

All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

Independence and Objectivity

The Chief Internal Auditor will ensure that internal audit activity will remain free from interference by any element in the Council that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, report content and communicating results. The Chief Internal Auditor will ensure internal auditors:

- are sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in any other activity that may impair their judgment;
- do not perform any operational duties for SDC or its partners;
- do not initiate or approve transactions external to the Internal Audit service;
- exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; and

- make a balanced assessment of all the relevant circumstances and not be duly influenced by their own interests or by others in forming judgements and opinions.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, effective arrangements are in place within SDC, to ensure the internal audit function:

- operates in a framework that allows unrestricted access to ‘Senior Management’ and ‘the Board’;
- reports functionally to ‘the Board’;
- reports in their own name;
- rotates responsibilities for audit assignments within the Internal Audit team;
- freedom to determine its priorities;
- completes individual annual declarations confirming compliance with rules on ethics, independence, objectivity, conflicts of interest, the Bribery Act 2010 and acceptance of inducements;
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity; and
- ensures independence and objectivity where executive or operational responsibilities lie with the Chief Internal Auditor. The Chief Internal Auditor does not have any executive responsibilities and is independent of all audited activities.

The Chief Internal Auditor will confirm to the board at least annually that the internal audit activity is organisationally independent.

If there has been any real or apparent impairment of independence or objectivity, the details of the impairment will be disclosed to ‘Senior Management’ and ‘the Board’. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Strategic Director of Resources will obtain feedback from relevant key stakeholders on the Chief Internal Auditor’s performance.

Internal Audit Resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide ranging internal audit, risk management and management experience.

The Strategic Director of Resources will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and to meet statutory obligations. The Internal Audit budget is reported to Council for approval annually as part of the overall Council budget.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities. In addition to in-house internal audit resource, the Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision and counter fraud specialists.

The audit plan is dynamic to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to 'Senior Management' and 'the Board'.

'Senior Management' and 'the Board' will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the annual internal audit plan, due to limitations on resources.

If 'Senior Management', 'the Board' or the Chief Internal Auditor, consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Strategic Director of Resources accordingly.

Proficiency and Due Professional Care

Internal auditors will perform work in accordance with the PSIAS and with due professional care, competence and diligence. Internal auditors cannot be expected to identify every risk, control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance that the key risks (including the consideration of fraud and information technology risks) within the scope of their review, are being effectively controlled / managed, taking into consideration the relative complexity, materiality or significance of matters to which assurance procedures are applied.

Auditors will take into consideration the cost of assurance, in relation to the potential benefits and risk exposure.

Internal auditors will be required to undertake a programme of Continuing Professional Development in order to develop and maintain their professional and behavioural skills, competencies and knowledge.

Relationship with External Audit / Other Relevant Assurance Providers / Regulatory Bodies

Internal Audit will liaise, share information, including fraud and irregularity information to the external auditors and co-ordinate its activities with internal and external providers of assurance to ensure there is adequate coverage and minimise duplication of effort. Where other external and internal assurance providers have undertaken assurance work, Internal Audit will seek to rely on the work of these other providers, or jointly work with the third party, if deemed relevant and appropriate.

Scope of Internal Audit Activities

Assurance

The service is responsible for providing independent assurance across the Council's entire 'control environment', comprising risk management, control and governance. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of SDC's strategic objectives are appropriately identified and managed;
- Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management;
- The actions of SDC's officers, directors and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programs are being carried out effectively and efficiently consistent with established goals and objectives;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

This means that the scope includes all of the Council's operations, resources, services and responsibilities to enable the Chief Internal Auditor to provide an annual opinion. However, in addition to the core assurance activity, Internal Audit also provides the following services:

Counter-Fraud and Investigation

Managing the risk of fraud, corruption and bribery is the responsibility of management. Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. However, whilst Internal Audit does not have responsibility for the detection or prevention of fraud and corruption, Internal Audit fully considers the risk of fraud and corruption when undertaking its activities.

Investigations into potential financial irregularities are undertaken by Internal Audit, whether reported directly to the Chief Internal Auditor, or referred by the Monitoring Officer, as required under the Council's Counter-Fraud and Corruption Policy Statement and Strategy and Whistleblowing Policy. The scope and approach taken to the investigation is dependent upon the nature of the allegations, which may also require referral to the Police or other enforcement agencies.

In certain circumstances, Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining action to be taken. In addition, the Chief Internal Auditor reports all key frauds and irregularities to the statutory officers, namely the Chief Executive, Monitoring Officer and Chief Financial Officer on a monthly basis and quarterly updates are provided to the Audit and Standards Committee.

Internal Audit also facilitates the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Consultancy

The service also undertakes consultancy work designed to improve the effectiveness of risk management, control and governance processes at the request of the Council, subject to there being no material impact on the core assurance activity and the availability of skills and resources. Due to Internal Audit's knowledge of the Council's systems and processes Internal Audit is well placed to provide risk and control advice and support to managers on potential implications of changes to policy, process and/or systems. The provision of such advice does not prejudice Internal Audit's right to evaluate the established systems and controls at a later date.

In order to help services to develop a greater understanding of audit activity and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service portfolio / liaison arrangements that provides a specific named contact for each service and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key changes and developments within services that may impact on its work.

Other Activity

The Chief Internal Auditor, may, at the request of ‘the Board’ or ‘Senior Management’, carry out investigations into issues where the Council’s strategic, operational and/or financial interests are at stake.

The Chief Internal Auditor shall seek approval from the Board for any significant additional consultancy services/other activity not already included in the Annual Internal Audit Plan, prior to accepting the engagement, if this materially affects the core assurance activity.

External Work

ARA provides an internal audit service outside of the Council and its partners. Such assurances fall under the following categories:

- Work under contract;
- Government Grant Chief Internal Auditor sign off; and
- Pension Fund activity.

Approval from the ARA Shared Service Board is obtained prior to entering into any significant contractual arrangements.

Risk Management

Internal Audit is not responsible for managing the Council’s risks, which is the responsibility of management. However, Internal Audit supports management in making its assessment of risk and impact. The Internal Audit service will also share information gathered during the course of the audit work with management to enhance management’s understanding of their risks and advise on the controls to manage them.

Internal Audit Planning

The Chief Internal Auditor will produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the Council’s priorities and objectives and taking into account the Council’s risk management framework, including risk appetite levels set by management and Internal Audit’s own judgement of risks.

To ensure our internal audit resources continue to be focussed accordingly, it is essential that we understand our clients’ needs, which means building relationships and consultation with our key stakeholders, which includes the Audit and Standards Committee and other assurance providers in order to gain crucial insight and ongoing ‘intelligence’ into the strategic and operational change agendas within the Council.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change. The plan is therefore dynamic and flexible to meet these needs.

The Audit and Standards Committee are responsible to formally approve the Risk Based Internal Audit Plan, whilst the Chief Internal Auditor will be responsible for its delivery.

Reporting

Reporting to Management

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each Internal Audit activity and will be distributed as appropriate.

The Internal Audit report will include management's response, corrective action taken, or to be taken, action owners and target dates in regard to specific findings and recommendations. Internal Audit will follow up all high priority recommendations made and report, as required, to senior management and the board any corrective actions agreed not implemented.

Reporting to 'the Board' and 'Senior Management'

The Board (at Stroud District Council is Audit and Standards Committee)

The Chief Internal Auditor shall deliver an annual internal audit opinion and report (and quarterly progress reports on Internal Audit activity) to 'the Board' that helps to inform the Council's Annual Governance Statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report will include, as a minimum:

- The Chief Internal Auditor's opinion;
- A summary of the work that supports the opinion;
- A statement of conformance with the PSIAS; and
- The results of the quality assurance and improvement programme.

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the Internal Audit Charter and Code of Ethics;
- approving the Annual Risk Based Internal Audit Plan;

- receiving communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- receiving and considering major Internal Audit findings and recommendations;
- monitoring management's response to Internal Audit findings and the implementation of the recommendations, including where the Chief Internal Auditor has concluded that management has accepted a risk that may be unacceptable to the Council or concerns about progress with the implementation of agreed actions;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreeing the scope and form of the external assessment as part of the Quality Assurance and Improvement Programme;
- receiving the results of internal and external assessments of the Quality Assurance and Improvement Programme, including areas of non-conformance with professional standards;
- approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.

Senior Management

As those responsible for the management of the Council it is imperative that the Senior Leadership Team is engaged in:

- reviewing and being consulted on the Internal Audit Charter and Code of Ethics;
- reviewing and being consulted on the Risk Based Internal Audit Plan;
- receiving communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the Quality Assurance and Improvement Programme, including areas of non-conformance.

Within SDC, the Strategic Director of Resources and the Chief Internal Auditor ensure that all of the above are brought to the attention of the Senior Leadership Team.

Management can assist the process of Internal Audit by:

- Early notification of plans for change, including new operational systems and processes;
- Considering and responding to audit reports and recommendations within a reasonable time period; and
- Notifying the Chief Internal Auditor immediately of any suspected fraud, irregularity, theft and improper use of misappropriation of the Council's assets, property or resources.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS require that the Internal Audit function is subject to maintaining a Quality Assurance and Improvement Programme that must include both internal and external assessments. The Chief Internal Auditor has developed and implemented a QAIP that covers all aspects of the Internal Audit activity which enables conformance with all aspects of the PSIAS to be evaluated.

In addition, the Chief Internal Auditor will communicate to the Senior Management and the Board on the Internal Audit activity's QAIP, including results of annual internal assessments and external assessments conducted at least every five years.

The external assessment will be undertaken by a qualified, independent assessor or assessment team from outside the Council. Progress against any improvement plans agreed following external assessment, will be reported in the Internal Audit Annual Report.

The Chief Internal Auditor will discuss options for the assessment jointly with the ARA Shared Services Board and the partner Audit Committees.

Internal Audit

Code of Ethics



ARA
Audit Risk Assurance

Gloucester City Council | STROUD DISTRICT COUNCIL | Gloucestershire COUNTY COUNCIL

Internal Audit Code of Ethics

The *Code of Ethics* is a statement of principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing as mandated by the Public Sector Internal Auditing Standards (PSIAS) 2017 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the UK PSIAS 2019 Edition.

The purpose of the Code is to promote an ethical culture in the profession of internal auditing. It does not supersede or replace internal auditors' own professional bodies' codes of ethics, or those of employing organisations.

The Code provides the principles and rules of conduct under four headings as summarised below:

Rule	Principle
Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

1. Integrity Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal Auditors:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal Auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

The Standards of Public Life

In addition, ARA also has regard to the Committee on Standards in Public Life's *Seven Principles of Public Life*. Further details can be found [here](#).

The Seven Principles of Public Life (holders of public office)

Selflessness

Should take decisions solely in terms of the public interest.

Integrity

Must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity

Must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Should be truthful.

Leadership

Should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2019-2022



2019 - 2022

Contents

Interpretation	2
Benefits of a QAIP	2
PSIAS Standard 1300	3
Internal Assessments	3
On-going Reviews	3
Periodic Reviews	4
External Assessment	4
Responsibility / Communication of QAIP Results	5
Appendix 1: Internal Audit service QAIP and performance monitoring arrangements	6
Appendix 2: Internal Audit Service Improvement Plan.	13
Appendix 3: Internal Audit QAIP framework.	15

Interpretation

A Quality Assurance and Improvement Programme (QAIP) enables an evaluation of the internal audit activity's conformance with the Internal Professional Practices Framework (IPPF), Definition of Internal Auditing and Standard 1300 (Quality Assurance and Improvement Programme) within the Public Sector Internal Audit Standards (PSIAS) 2017 and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity with the primary objective of the QAIP to promote continuous improvement to enable Internal Audit to meet its mission i.e.

'A collaborative partnership delivering a modern, innovative, customer focused service aligned to business needs to enhance and protect organisational value by providing risk based, independent and objective assurance, consulting activity, advice and insight.'

Benefits of a QAIP

Internal Audit's QAIP is designed to provide reasonable assurance to its stakeholders that the service:

- Conforms with the mandatory guidance of the IPPF;
- Applies a systematic, disciplined (risk based) approach to the internal audit activity;
- Has the ability to increase the credibility of internal audit within the organisation;
- Anticipates, meets and exceeds stakeholder expectations;
- Supports, develops and retains good internal auditors, as team members are a fundamental part of the process with specific tasks and KPIs built into personal development plans;
- Performs its work in accordance with its Charter (which is consistent with the PSIAS);
- Operates in an effective and efficient manner; and
- Adds value and identifies areas for continual improvement to the services provided.

PSIAS Standard 1300

A QAIP covers the entire spectrum of assurance, consulting and fraud / irregularity work performed by the internal audit activity in accordance with the Standard 1300. To implement the Standard the Chief Internal Auditor (CIA) must consider the requirements related to its five essential components:

1. Internal assessments (Standard 1311);
2. External assessments (Standard 1312);
3. Communication of QAIP results (Standard 1320);
4. Proper use of a conformance statement (Standard 1321); and
5. Disclosure of non-conformance (Standard 1322).

Internal Assessments

Internal assessments are undertaken through both on-going day to day supervision and periodic reviews.

On-going Reviews

Continual assessments of quality are undertaken via:

- Management supervision of all audit activity and structured documented review of Terms of Reference, working papers, draft and final reports;
- Audit quality procedures for each audit engagement to ensure consistency, quality and compliance with planning, fieldwork and reporting standards;
- CIA review of all reports where a limited opinion on the control environment has been provided;
- Feedback from audit clients obtained through surveys at the closure of each engagement;
- Post audit evaluations undertaken at the end of each audit activity to identify trends and any learning and development needs;
- Regular 121s between line managers and auditors to monitor performance;

Internal Audit Quality Assurance and Improvement Programme (QAIP) Framework

- Monitoring of internal performance targets and quarterly reporting to Senior Management, Audit Committees and Boards;
- High priority recommendation monitoring process in place to ensure implemented; and
- Follow up audits undertaken where a limited assurance opinion on the control environment provided.

Periodic Reviews

Periodic assessments are conducted via:

- Annual Risk Based Internal Audit Plan developed. However, is dynamic and changes in year due to risk, consultancy, irregularity and assurance needs;
- Quarterly Progress Reports presented to the partner Audit Committees and Client Board of Directors which includes progress against the annual plan, reports issued during the period including details of the risk and control opinions and summaries of key issues and outcomes from the work undertaken in the period, including fraud and irregularity work;
- Annual self-assessment of conformance with the PSIAS and annual review of compliance against the requirements of the QAIP, the results of which are reported to Senior Management, the Audit Committees and Boards;
- Principal Auditor Working Group (PAG) led by the Group Manager (GM) identifies, develops and recommends to the CIA, any required changes to operational practices and processes;
- Feedback from the ARA Board which includes Senior Management and Audit Committee Chairs on the CIA's performance; and
- Six monthly performance development reviews for each Internal Auditor.

External Assessment

In addition to internal assessments, the CIA is responsible for ensuring that the internal audit activity conducts an external assessment at least once every five years in consultation with Senior Management and the Board.

The purposes of the assessment, which must be performed by an independent assessor or assessment team from outside the organisation, is to validate whether the internal audit activity conforms with the Standards and whether internal auditors apply the Code of Ethics.

A self assessment may be performed in lieu of a full external assessment, provided it is validated by a qualified, independent, competent and professional assessor.

The review undertaken during May 2015 by the Chartered Institute of Internal Auditors (CIIA) included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF. The independent assessment identified 100% conformance and reported the outcomes to the June 2015 Gloucestershire County Council Audit and Governance Committee.

The next external assessment is due in May 2020 and will be undertaken by the CIIA assessment team. The outcomes of the review will be reported to the partner Audit Committees in July 2020.

Responsibility / Communication of QAIP Results

The CIA is committed to continuous improvement and is responsible for implementing the QAIP and will ensure that the results of this programme are communicated to Senior Management, Audit Committees and Boards (as defined within the Charters). However, all staff within Internal Audit have responsibility for maintaining quality, therefore all activities outlined in this QAIP involve all staff. The communication of QAIP results will include:

- The outcomes in respect of both internal and external assessments;
- The internal audit service will only communicate that the internal audit activity conforms with International Standards for the Professional Practice of Internal Auditing, if results of both the QAIP's internal and external assessments support such a statement; and
- Any non-conformance with the IPPF's mandatory elements of the standards, their impacts and improvement plans. Significant areas of non-compliance will be used to inform the Annual Governance Statement.

Appendix 1: Internal Audit service QAIP and performance monitoring arrangements.

Quality Objective: To provide maximum assurance to inform the annual audit opinion.		
KPI / Measure of assessment	Target	Reporting
<p>Risk Based Internal Audit Plan</p> <p>To undertake a risk based annual plan formulation exercise which includes facilitating risk based audit planning workshops for the Boards and the portfolio areas designated, which then feed into the overall audit plan(s). (As per the CIA approved methodology).</p>	Timetable set by CIA.	Annually to Senior Management and the Board (Audit Committees and Board of Directors).
<p>Planned audit activities completed</p> <p>Percentage of planned assurance work from revised plan (including carry forwards) completed to draft report stage as at 31st March in each financial year.</p> <p>Monitored at 121s and 6 monthly Personal Development Reviews.</p>	85%	Annual report to Senior Management and the Board. Quarterly progress reports to the Board.
<p>Planned audit activities completed</p> <p>Percentage of individual audit activities completed to final report stage from the issue of the Terms of Reference.</p> <p>Allocated days up to 15 (3 months).</p> <p>Allocated days 16+ (4 months).</p> <p>Monthly monitoring of individuals by the line management. Quality Assurance process.</p>	80%	Overall monitoring by the GM reporting key issues to the CIA.

Quality Objective: To provide maximum assurance to inform the annual audit opinion.		
KPI / Measure of assessment	Target	Reporting
<p>Planned audit activities completed</p> <p>Percentage of individual audit activities completed to draft report stage within 15 working days from QA submission.</p> <p>Monthly monitoring of individuals by the line management quality assurance process.</p>	90%	Overall monitoring by the GM reporting key issues to the CIA.
<p>Counter Fraud and Investigation Activity</p> <p>To undertake a fraud risk assessment in accordance with relevant best practice / guidance to enable the direction of counter fraud activity and risk based internal auditing.</p>	December of each year to help inform annual audit planning.	Outcomes form part of Annual Internal Audit Plan which is presented to Senior Management and the Board.
<p>Limited Assurance Opinions</p> <p>Where a “limited” assurance opinion is made, the report will be reviewed by the CIA or in her absence by the GM before being issued to the client. This time needs to be factored in, to still ensure the client receives the report within the 15 working day target.</p>	100%	Annual report to Senior Management and the Board. Quarterly progress reports to the Board.

Quality Objective: To ensure that the service is customer focused, adds value and continually improves.		
KPI / Measure of assessment	Target	Reporting
<p>Post Audit Customer Satisfaction Survey Feedback</p> <p>% of customers scoring audit service good or above (3 out of 4) where 1 is poor and 4 is excellent.</p> <p>Line Management review identifying and recommending to the CIA any 'lessons' learned' for further development and improvement.</p>	80%	Annual report to Senior Management and the Board.
<p>Post Audit Evaluation (PAE)</p> <p>PAE (activity lead and activity manager) self assessments undertaken at the end of each audit activity to identify any developmental and learning actions.</p>	100%	Overview by the GM reporting key issues to CIA.
<p>Acceptance of Recommendations</p> <p>Percentage of high / medium recommendations accepted which evidences added value in risk mitigation.</p>	90%	Annual report to Senior Management and the Board. Quarterly progress reports to the Board.
<p>Management Responses</p> <p>Percentage of management responses to audit actions within 14 days. Escalation process in place as required.</p>	80%	Quarterly report to GM. CIA ability to report to the Board as required.

Quality Objective: To ensure that the service is customer focused, adds value and continually improves.		
KPI / Measure of assessment	Target	Reporting
<p>Development of Terms of Reference</p> <p>To develop a quality terms of reference with minimal input from the activity manager which focuses on the ‘right first time’ principle which then informs the final audit report.</p> <p>PAE assessment of trends and developmental needs.</p>	<p>Any activity over 2 attempts is escalated to Line Managers.</p>	<p>Monitored by GM and overseen by the CIA to identify any learning and development actions.</p>
<p>Development of Audit Report</p> <p>To develop a quality first draft audit report with minimal input from the activity manager which focuses on the ‘right first time’ principle and is ready to be discussed with the client, prior to submission to the activity manager for quality assurance.</p> <p>PAE assessment of trends and developmental needs.</p>	<p>Any activity over 2 attempts is escalated to Line Managers.</p>	<p>Monitored by GM and overseen by the CIA to identify any learning and development actions.</p>

Quality Objective: To ensure that the service is customer focused, adds value and continually improves.		
KPI / Measure of assessment	Target	Reporting
<p>Audit Reports</p> <p>Audit report ‘corporate’ circulation list implemented to enable risks / issues / recommendations to feed back into business as usual i.e. via Finance and Planning, Performance and Change to enable the management of risk by management.</p>	100%	Corporate circulation list agreed and implemented. Documented in Audit Manual.
<p>Internal Audit’s Strategic Performance</p> <p>Discuss Internal Audit’s overall strategic performance with the ARA Shared Services Board implementing improvements as identified / required.</p>	Quarterly	ARA Shared Services Board.
<p>Chargeable Hours/productivity (non official KPI)</p> <p>The audit plan is stated in terms of estimated productive days provided to the Council. The CIA target is to achieve 70% productivity.</p>	70% productivity levels	Resource allocation at annual planning stage. QA process and CIA plan monitoring.

Quality Objective: To manage and implement approved Client Audit Plan as agreed by the Ubico Ltd Board of Directors within the contracted days.

KPI / Measure of assessment	Target	Reporting
<p>Completion of Ubico Ltd Audit Plan Percentage of planned assurance work from plan complete to draft report stage as at 31st March in a financial year.</p>	<p>100%</p>	<p>Annual report to the Board of Directors and Senior Management. Quarterly progress reports to the Board of Directors.</p>

Quality Objective: To ensure that the service embeds and reflects organisational values.		
KPI / Measure of assessment	Target	Reporting
<p>Staff Behaviours and Values - Accountability, Integrity, Empowerment, Respect and Excellence</p> <p>All ARA officers to consider and apply organisational values to their daily working behaviours and approach e.g. to:</p> <ul style="list-style-type: none"> ➤ Identify and communicate information in a timely manner that would have an impact on the ARA team; ➤ Reflect on working practices and champion any changes or improvements that are needed; ➤ Actively seek opportunities for learning and development; ➤ Show mutual respect and provide support for each other across the Shared Service; and ➤ Constructively challenge behaviour that is not consistent with values and receive any feedback from colleagues in a positive light. 	Adherence	Monitored at 121s and Performance Development Reviews.

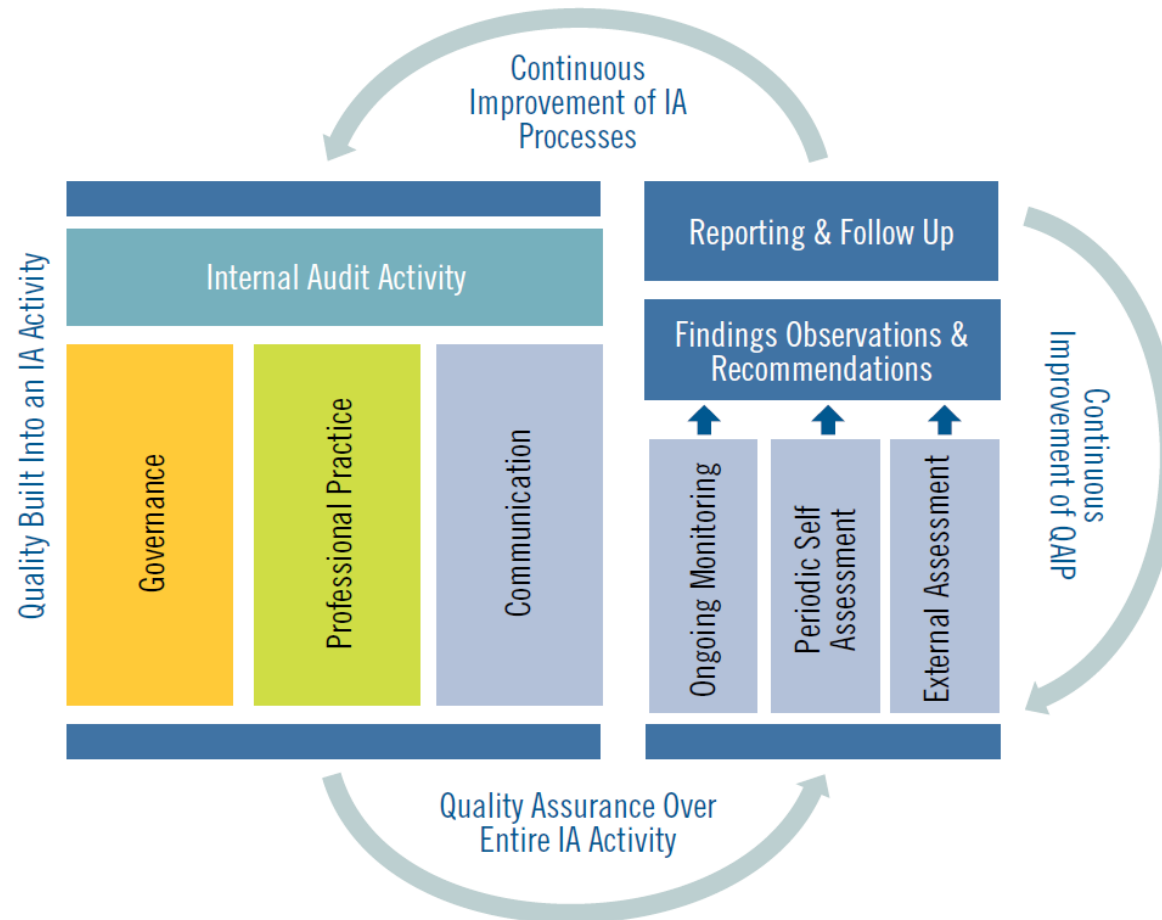
Appendix 2: Internal Audit Service Improvement Plan.

Improvement Plan 2020/2021 onwards

	Opportunities for Improvement / Actions	Responsible Officer(s)	Timescale
1.	<p>Time Management</p> <p>The current requirement is that any variation over budget for completion of an audit activity needs to be authorised by the Activity Manager, and if this is to exceed the allocated days by 5 working days this needs to be authorised in advance by the Group Manager to enable the achievement of the audit plan.</p> <p>Due to a number of audits exceeding their allocated days, a specific project will be implemented led by the GM and supported by PAG to consider trends, rationale and make recommendations for improvement.</p>	GM / CIA	30th September 2020
2.	<p>Team Development</p> <p>To develop and implement a mandatory team training day facilitated by an external professional internal audit provider to ensure auditors are kept abreast of key issues / changes in the profession of internal auditing.</p>	GM / CIA	With effect from 1 st January 2020

	Opportunities for improvement / Actions	Responsible Officer(s)	Timescale
3.	<p>Personal Development - Senior and Trainee Auditors</p> <p>To undertake one quality assurance review of an audit that has been undertaken, by a peer member of the Internal Audit team.</p>	GM / CIA	With effect from 1 st April 2020
4.	<p>Annual presentation of the Internal Audit Charter, Code of Ethics and QAIP to Audit Committee</p> <p>To continue to promote the role, purpose, status and authority of Internal Audit within the organisation and explain how Internal Audit supports effective corporate governance.</p>	CIA	With effect from 31 st January 2020
5.	<p>Audit Manual Update</p> <p>To ensure all updates to audit systems, processes, practices and templates are reflected via the audit manual to ensure all retained in a central repository and easily accessible to all auditors.</p>	GM / CIA	With effect from 1 st January 2020
6.	<p>Succession Planning</p> <p>To continue with the career graded trainee auditor to senior auditor programme, to promote an attractive recruitment and retention offer, enable more effective succession planning and support ongoing resilience and sustainability.</p>	CIA	Ongoing

Appendix 3: Internal Audit QAIP framework.



STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

9

Report Title	ANNUAL GOVERNANCE STATEMENT 2018/19 IMPROVEMENT PLAN – PROGRESS REPORT
Purpose of Report	To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council have been/are being addressed.
Decision(s)	The Committee RESOLVES to note the progress made as set out in the report.
Consultation and Feedback	Senior Leadership Team
Financial Implications and Risk Assessment	There are no direct financial implications arising from this report. Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk Risk Assessment: Failure to deliver an effective corporate governance framework prevents the Council in directing and controlling its resources effectively and efficiently, to enable the Council's objectives to be met.
Legal Implications	There are no direct legal implications arising from the recommendations in this report Patrick Arran, Interim Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	None
Performance Management Follow Up	The Council's Annual Governance Statement 2019/20 is due to be presented to Audit and Standards Committee in July 2020, and will include a final progress report against the Annual Governance Statement 2018/19 Improvement Plan.
Background Papers/ Appendices	Appendix A: Annual Governance Statement 2018/19 Improvement Plan – Progress Report Background papers: Annual Governance Statement 2018/19

1.0 Background

- 1.1 Governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

- 1.2 The Council is required by the Accounts and Audit Regulations 2015 to publish an Annual Governance Statement, in accordance with '*proper practices*' in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance. This approach includes how the Council has monitored the effectiveness of arrangements in year and on any planned changes to governance arrangements in the coming year. Through the Council's Constitution, the Audit and Standards Committee has responsibility for review and approval of the Statement.
- 1.3 Members approved the Council's Annual Governance Statement 2018/19 (including the Annual Governance Statement 2018/19 Improvement Plan) at the 25th July 2019 Audit and Standards Committee meeting.
- 1.4 This report is the first update presented to Members on the Council's progress (detailed in **Appendix A**) against agreed actions from the Annual Governance Statement 2018/19 Improvement Plan.

Progress on 2018/2019 Stroud District Council's Governance Improvement actions for Audit and Standards Committee

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Chief Financial Officer Assurance Statement	<p>Future Financial Sustainability</p> <p>The 2018/19 Medium Term Financial Plan (MTFP) identified core deficit of £1.4m by 2022/23.</p> <p>Actions taken in response to the above:</p> <p>The Council has already undertaken a number of savings actions to improve its financial position in the Medium Term including the transfer of the Subscription Rooms in March 2019.</p> <p>It has also moved to a position of being fully budgeted for key risk areas such as the Multi-Service contract with Ubico Ltd.</p> <p>Reaching financial self-sufficiency remains a key focus of the Council's Corporate Delivery Plan and the Council is actively pursuing new income generation opportunities including improved treasury management returns.</p>	<p>31st March 2020</p> <p>Chief Financial Officer (S151)</p>

Position at December 2019

Strategy and Resources Committee and Council approved the latest Budget Strategy in October 2019 which states that the core deficit will be £1.6m in 2023/24. This actually represents an improved position for the Council as this has been reached after fully funding the Ubico budget, building in the long anticipated County food waste payments reductions and the removal of a workforce savings target not based on a clear organisational plan.

The full MTFP is to be presented to Council in February 2020 and a further improvement to the £1.6m figure is expected.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Corporate Governance	<p>Local Government Association (LGA) Corporate Peer Challenge (CPC)</p> <p>The LGA's offer to support sector led improvement provides a range of tools to help councils further strengthen local accountability and explore how effectively they are delivering services. Peer Challenges are part of this offer. They provide a robust and effective improvement tool managed and delivered by the sector, for the sector. Peers are at the heart of the peer challenge process and provide a 'practitioner perspective' and 'critical friend' challenge. There is currently an offer to all councils to have a peer challenge (at no cost) at a time of its choosing, and focusing on local needs and specific requirements. There is an expectation that councils will commission a Corporate Peer Challenge (CPC) every 4-5 years.</p> <p>Background and focus for the peer challenge at Stroud District Council (SDC)</p> <p>SDC last had a CPC in 2014. There is a relatively new political administration and leader and likewise a very new chief executive-Kathy O'Leary, having taken up post in November 2018. As such both the Leader and Chief Executive were very keen to have a relatively 'early' CPC in the spring of 2019. After a long period with relatively little organisational change and transformation SDC welcomed some external challenge.</p> <p>There is a clear mandate to promote and gain the benefits from progressive transformation and organisational change in the council.</p>	Ongoing Chief Executive

That is not to underplay the many strong aspects of service performance, such as recycling rates and progressive approaches in terms of the canals and regeneration. However, the Council is keen to guard against itself becoming insular and risk averse and the CPC is a useful milestone to provide some critical friend challenge around the Council's emerging plans for change and the views of the many stakeholder both internally and beyond who will be key to seeing that change through.

As such, as well as providing critical friend challenge of the core components it will be important the peer team encapsulates and feeds back a view on the above.

Based on the above, SDC participated in an LGA Corporate Peer Challenge, which involved a team from the LGA, comprising of a Chief Executive, senior managers and members from other councils.

The LGA review took place between 26th and 29th March 2019.

In delivering this focus the peer team explored the five core components (the underpinning features of good performance) that all LGA Corporate Peer Challenges cover:

1. **Understanding of the local place and priority setting:** Does the council understand its local context and place and use that to inform a clear vision and set of priorities?
2. **Leadership of Place:** Does the council provide effective leadership of place through its elected members, officers and constructive relationships and partnerships with external stakeholders?
3. **Financial planning and viability:** Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?

4. **Organisational leadership and governance:** Is there effective political and managerial leadership supported by good governance and decision-making arrangements that respond to key challenges and enable change and transformation to be implemented?
5. **Capacity to deliver:** Is organisational capacity aligned with priorities and does the council influence, enable and leverage external capacity to focus on agreed outcomes?

In addition to the above we asked the peer teams view on:

- How well the Council is currently meeting customer needs;
- How the council might make best use of technology in the delivery of efficient and excellent customer services;
- How well the structure supports the Council's vision and delivery of corporate objectives and how this might be improved;
- How best to achieve financial self sufficiency – including making the most of commercial investment and treasury management (with an eye on the benefit to the residents and businesses).

Exploring the core components above will help provide reassurance and an indication about the organisation's ability and capacity to deliver on its plans, proposals and ambitions, but will also allow the peer team where appropriate to comment on track record and achievements too, helping to demonstrate the council's journey of improvement.

	<p>Actions taken in response to the above:</p> <p>To monitor the progress made against the areas for improvement and development identified during the peer challenge.</p>	
<p>Position at December 2019</p> <p>The Senior Leadership Team has committed to regular update reports on progress on peer challenge actions. The most recent report was submitted to Strategy and Resources Committee on 17th December 2019.</p>		

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Brought forward from 2016/2017	<p>Procurement Action Plan</p> <p>The Council fully appreciates that an appropriate corporate framework for procurement and contract management is key to effectively managing risks of legal challenge and not securing best value goods, works and services. In 2017/18 the final elements of the corporate action plan to address weaknesses in the corporate framework identified in 2014/15 were completed i.e. a comprehensive programme of corporate procurement training was delivered to improve staff procurement competency levels.</p> <p>As part of the corporate oversight of procurement, the Principal Procurement Officer with the support of the Legal team is continuing to advise and oversee the application of the framework. As a consequence issues have been brought to the attention of relevant heads of service and directors to improve their teams' forward planning of procurement activities.</p> <p>Actions taken in response to the above:</p> <p>To continue to develop officer procurement competency and forward planning, procurement and associated governance issues (e.g. risk management) are included within the staff induction day; further regular updates and reports to committee and Senior Leadership Team (SLT) are provided on procurement activities including consolidation projects.</p>	Ongoing Principal Procurement Officer and Monitoring Officer

	<p>Details of all exemptions to Contract Procurement Procedure Rules (whether agreed or not) are provided to Audit and Standards Committee on a regular basis as part of the procurement updates.</p> <p>Regular update reports are taken to SLT on a regular basis to include any issues relating to the application of the procurement framework; forthcoming contract renewals with updates from contract owners, and progress on spend consolidation projects.</p> <p>Reports and briefing papers are also provided to Audit and Standards Committee to highlight any improvements to; or concerns; relating to the application of the procurement governance framework.</p> <p>Revised Procurement Strategy to be recommended to Council for approval at Strategy and Resources Committee on 13 June 2019; this includes an updated action plan reflecting the National Procurement Strategy 2018, the revised Environment Policy and recent motions agreed by Council relating to Modern Slavery Charter, Community Wealth Building and Single Use Plastics.</p>	
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Position at December 2019

The new Procurement Strategy (2019 – 2023) has been adopted by the Council, which reflects the aims and objectives of the National Procurement Strategy in the procurement aims.

The updated strategy also incorporates a new social value policy and reflects motions agreed at Council, such as CN2030, single use plastic, modern slavery charter and Unite construction charter.

Updates will be provided to Senior Leadership Team and committee on a regular basis.

AUDIT AND STANDARDS COMMITTEE

10

28 JANUARY 2020

Report Title	TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21
Purpose of Report	<p>This report outlines the Council's prudential indicators for 2020/21 – 2022/23 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003:</p> <ul style="list-style-type: none"> • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the MHCLG investment guidance. <p>It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2020/21.</p>
Decision(s)	<p>The Audit and Standards Committee RECOMMEND that Council:</p> <ol style="list-style-type: none"> 1. adopt the prudential indicators and limits for 2020/21 to 2022/23; 2. approve the treasury management strategy 2020/21, and the treasury prudential indicators; 3. approve the investment strategy 2020/21, and the detailed criteria for specified and non-specified investments; and 4. approve the MRP Statement 2020/21.
Consultation and Feedback	Link Asset Services (LAS)
Financial Implications and Risk Assessment	<p>The Council has a responsibility to set a Treasury Management Strategy for the effective management of investments and borrowings.</p> <p>The Strategy proposed within is in line with the Medium Term Financial Plan including estimates of capital expenditure, borrowing costs and targets for income receivable.</p> <p>All specific financial implications are addressed throughout the body of the report.</p> <p>Andrew Cummings, Strategic Director of Resources Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk</p>
Legal Implications	<p>There are no significant legal implications arising from the recommendations in this report</p> <p>Patrick Arran, Interim Head of Legal & Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk</p>

Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2020/21 Council Tax, Housing rent levels and the capital programme.
Performance Management Follow Up	Quarterly and annual Treasury Management reports of actual compared with estimated prudential indicators for 2020/21. Any breaches of the Prudential Code will be reported to the Audit and Standards Committee. A breach of the Authorised Borrowing Limit would require immediate investigation and reporting to Council.
Background Papers	Treasury Management Policy Statement Treasury Management Practices - Main Principles Treasury Management Practices – Schedules The Prudential Code for Capital Finance in Local Authorities (2017) Treasury Management in the Public Services Guidance Notes for Local Authorities (2018) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017) CIPFA statement on borrowing in advance of need and investments in commercial properties.
Appendices	A. Investments at 31 December 2019 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation and Role of the Section 151 Officer

Discussion

1. Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to “have regard to” the Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 Prudential Code and the CIPFA 2017 Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
2. Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council’s policies for managing its investments and for giving priority to security and liquidity of investments.
3. There is also a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year and this is set out in paragraphs 2.6 – 2.11 of this report.
4. CIPFA Code of Practice on Treasury Management requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:
 - Treasury Management Policy Statement. This is reviewed annually.

- Treasury Management Practices (TMP) – Main Principles. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.
- Treasury Management Practices – Schedules. These schedules set out the details of how the TMPs are put into effect by this Council. This document is revised annually to include the latest detailed procedural documents.
- Counterparty Lending List and lending criteria. The list used by the Council is provided by Link Asset Services (LAS), the Council's treasury advisors. A new list is provided weekly, and there are daily updates by email of any changes to ratings.

5. Other CIPFA requirements are:

- a Mid-Year Report and an Annual Report covering activities during the previous year;
- a Capital Strategy;
- delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Section 151 officer;
- delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2020/21

1. INTRODUCTION

- 1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 The 2020/21 strategy for the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, LAS. The strategy covers:
- limits in force to mitigate the Council's treasury risk;
 - Prudential Indicators;
 - current treasury position;
 - borrowing requirement;
 - prospects for interest rates;
 - borrowing strategy;
 - policy on borrowing in advance of need;
 - investment strategy;
 - creditworthiness policy;
 - policy on use of external service providers;
 - Minimum Revenue Provision (MRP) statement;
 - treasury management scheme of delegation and section 151 role;
 - miscellaneous treasury issues.

- 1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
- increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
 - any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2020/21 TO 2022/23

- 2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.
- 2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
Community Services	61	-	147	170	-
Environment	813	1,965	4,379	10,413	3,899
Housing General Fund	1,213	1,498	2,030	330	330
Strategy & Resources	526	1,573	666	500	3,651
General Fund	2,613	5,036	7,222	11,413	7,880
HRA	8,593	10,010	18,250	14,008	10,164
Total	11,206	15,046	25,472	25,421	18,044

- 2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
General Fund	2,613	5,036	7,222	11,413	7,880
HRA	8,593	10,010	18,250	14,008	10,164
Total	11,206	15,046	25,472	25,421	18,044
Financed by:					
Capital receipts	1,270	914	5,566	1,380	144
Capital grants	1,414	2,423	4,477	9,529	3,676
Capital reserves	620	1,713	1,322	570	0
Revenue	7,443	9,075	6,564	6,323	5,169
Net GF Financing Need for the year	459	921	1,498	1,487	4,302
Net HRA Financing Need for the year	-	-	6,045	6,132	4,753
Total Net Financing Need for the year	459	921	7,543	7,619	9,055

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The Council is asked to approve the CFR projections below that are in line with approved capital budgets:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2018/19 £000 Actual	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate
CFR - General Fund	15,726	14,617	15,080	15,387	19,071
CFR - HRA	95,742	94,842	99,969	104,963	108,355
Total CFR	111,468	109,459	115,049	120,350	127,426
Movement in CFR	-896	-2,009	5,590	5,301	7,076

Movement in CFR represented by					
Net financing need for the year	459	921	7,543	7,619	9,055
Less MRP / VRP and other financing movements	-1,355	-2,930	-1,953	-2,318	-1,979
Movement in CFR	-896	-2,009	5,590	5,301	7,076

Minimum Revenue Provision (MRP) Policy Statement 2020/21

- 2.6 The Council's MRP policy statement for 2020/21 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP will be charged under Option 3 of the MHCLG guidance on General Fund borrowing. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset.
- 2.7 There is no requirement to charge MRP to the HRA. However, following on from the introduction of Self-Financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. As a result, depreciation is a real cost to the HRA from financial year 2017/18. The regulations had previously allowed for the Major Repairs Allowance to be used as a proxy for depreciation until 31 March 2017.
- 2.8 The HRA 30 year financial plan now includes provision for the repayment of debt and therefore the HRA will make Voluntary Revenue Provision (VRP) when this is considered prudent. The HRA has planned VRP of £0.9m (19/20), £0.918m (20/21), £1.138m (21/22) and £1.361m (22/23).
- 2.9 The General Fund MRP liability began when the General Fund undertook borrowing during financial year 2016/17. Borrowing in respect of The Pulse fitness extension, the Multi-Service contract vehicles, premises and equipment, and more recently the Littlecombe Business Units has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.
- 2.10 The status of £2m of funding received from the HCA in respect of capital development works to Brimscombe Port is effectively a loan, although the agreement with HCA is being re-negotiated. As no expenditure related to that loan has yet been incurred no MRP is charged to make provision for repayment. When expenditure is incurred then MRP will begin.
- 2.11 In 2020-21 IFRS16 is introduced and this will have the effect of removing the current distinction between finance and operating leases. As a result, some currently leased assets will come on balance sheet, but the impact is very immaterial. There will be a greater impact in future from planned vehicle leases particularly by the HRA Repairs and Maintenance service. The policy will be for these leased assets to be depreciated by the same amount as the MRP element of annual lease payments. MRP is the capital element of the annual lease payments, excluding interest and service elements which are revenue costs.

Table 4: Core Funds and Expected Investments

Year end resources	2018/19 £m Actual	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Fund balances / reserves	32.881	27.739	26.694	23.251	20.286
Capital receipts	9.184	5.670	2.962	2.274	2.852
Provisions	1.514	1.514	1.514	1.514	1.514
Other	0.647	0.500	0.500	0.500	0.500
Total Core funds	44.226	35.423	31.670	27.539	25.152
Working capital	2.400	0.500	0.500	0.500	0.500
Under (-) / over borrowing	-7.752	-5.742	-9.332	-10.633	-12.709
Expected investments	38.874	30.181	22.838	17.406	12.943

- 2.12 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 4 above are estimates of the year-end balances for each resource and total cash flow balances.

Affordability of capital plans prudential indicators

- 2.13 A prudential indicator is required to assess the affordability of capital expenditure plans. This indicator provides an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the cost of capital expenditure plans as a ratio of the net revenue stream indicator shown in table 5.

Table 5: Ratio of financing costs to net revenue stream

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	-2.50%	-2.50%	-3.60%	-4.10%	-3.59%
HRA	16.20%	15.33%	14.74%	16.49%	17.18%

3. BORROWING

- 3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.
- 3.2 Table 6 shows the actual external debt (the treasury management operations), compared against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6: Gross Debt compared with Capital Financing Requirement (CFR)

	2018/19 £m Actual	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
External Debt					
Debt at 1 April	105.717	103.717	103.717	105.717	109.717
Expected change in debt	-2.000	-	2.000	4.000	5.000
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	103.717	103.717	105.717	109.717	114.717
Capital Financing Requirement	111.468	109.459	115.049	120.350	127.426
Under / (-) over borrowing	7.751	5.742	9.332	10.633	12.709

Borrowing Strategy

- 3.3 Currently the Council has £103.717m of borrowing, compared with a Capital Financing Requirement (CFR) of £111.468m. This means that the capital borrowing need (the CFR), is greater than loan debt by £7.751m. The Council has taken no borrowing during the 2019/20 financial year.
- 3.4 There was a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. This Council's HRA debt cap was £95.742m. This cap was the absolute limit for HRA borrowing under the Prudential Code, even if the Council considered further borrowing was affordable by the HRA. The debt cap was removed in 2018.

- 3.5 HRA capital plans now include borrowing of £6.045m commencing in 2020/21 and totalling £16.930m up to 2022/23. General Fund capital plans include borrowing of £11.184m up to 2023/24. The Section 151 officer will decide on the length and type of borrowing which may be required, as well as the optimum time to borrow in consultation with LAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.
- 3.6 At the end of 2020/21 there is an estimated internal borrowing position of £11.332m. Internal borrowing is currently beneficial because it reduces the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2022/23. Although, with the MTFP forecasting the running down of balances, and possible future changes in interest rate forecasts the Section 151 officer will keep this under review, and adjust the strategy as necessary in consultation with our Treasury advisers LAS.
- 3.7 Within the prudential indicators, there are key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.
- 3.8 The Section 151 officer reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2022/23. This view takes into account current commitments, existing plans, and the proposals in this budget report.
- 3.9 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 7: Operational Boundary

Operational Boundary	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Debt	127	129	133	138
Other Long Term Liabilities	-	-	-	-
Total	127	129	133	138

- 3.10 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils. This power has not been used to date.
- 3.11 The Council is asked to approve the following Authorised Limit:

Table 8: Authorised Limit for External Debt

Authorised Limit	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate
Debt	135	137	141	143
Other Long Term Liabilities	-	-	-	-
Total	135	137	141	143

3.12 Link Asset Services (LAS) are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest LAS forecast as at January 2020.

Table 9: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Dec-19	0.75	2.3	3.1	2.9
Mar-20	0.75	2.4	3.3	3.2
Jun-20	0.75	2.4	3.4	3.3
Sep-20	0.75	2.5	3.4	3.3
Dec-20	0.75	2.5	3.5	3.4
Mar-21	1	2.6	3.6	3.5
Jun-21	1	2.7	3.7	3.6
Sep-21	1	2.8	3.7	3.6
Dec-21	1	2.9	3.8	3.7
Mar-22	1	2.9	3.9	3.8
Jun-22	1.25	3	4	3.9
Sep-22	1.25	3.1	4	3.9
Dec-22	1.25	3.2	4.1	4
Mar-23	1.25	3.2	4.1	4

Treasury management limits on activity

3.13 The purpose of treasury management limits are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The maturity structure of borrowing limits are set out in Table 10. The gross limits are set to control the Council's exposure to large fixed rate sums falling due for refinancing at the same time. Upper and lower limits are set for each time period.

3.14 The Council is asked to approve the following treasury indicators and limits:

Table 10: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2020/21	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Policy on borrowing in advance of need

3.15 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.7). Decisions to borrow will seek to ensure value for money and security of funds.

3.16 The Council will consider borrowing up to 12 months ahead of capital spend:

- If such capital spend is considered very likely to occur within 12 months;
- treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
- treasury advisers evaluate a net saving after assessing cost of carry;
- a trigger rate(s) will be set by s151 officer in consultation with treasury advisers and treasury officers;
- borrowing may be conducted in parcels – eg £4m could be split into 4 x £1m or 2 x £2m;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.17 The foregoing usual procedure will not prevent the Section 151 officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

- 3.18 Now that the Council has £103.7m of debt, the Section 151 officer will keep under review opportunities for debt rescheduling. Debt rescheduling will be reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

- 4.1 It is vital that the Council ensures that its investment balances are best utilised to help the overall financial position. Appendix A shows that there is over £50m invested. Improving average returns on the Council's investment portfolio will be a significant factor in improving the Council's financial sustainability. Investment strategy is to broaden the range of longer term investments, and during 2019/20 £10m of longer term investments were approved including £6m in property funds and £4m in multi-asset funds. A further £5m will be made available in 2020/21 for longer term investments
- 4.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any updates to that guidance such as the 2018 update, and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:
- 1) security of capital
 - 2) liquidity of investments
 - 3) rate of return
- 4.3 In accordance with the above, and in order to minimise the risk to investments with banks and building societies, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. LAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on the Passport online portal.
- 4.4 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4.5 The intention of the strategy is to provide security of investment whilst maximising returns and an awareness of risk, both of losing capital and also of eroding the value of funds through lower rates of return.
- 4.6 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council has been generally low in order to give priority to security of investments, however higher risk longer term investments are part of a balanced portfolio of investments up to a value of £15m, subject to proper due diligence by the Section 151 officer.
- 4.7 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

- 4.8 'Specified' Investments which are investments with a high level of credit quality and maturities of up to 1 year and 'Non-Specified' Investments which are of a lower credit quality, may be for longer periods than 1 year and are more complex investment instruments which require proper due diligence before they are authorised for use during the financial year.

Table 11: Non-specified investment limit

Upper Limit for total principal sums invested for over 365 days	2018/19	2019/20	2020/21	2021/22	2022/23
Investments	£10m	£15m	£15m	£15m	£15m

Specified Investments

- 4.9 All specified investments will be sterling denominated, with maturities up to 1 year or less (including any forward deal time), subject to LAS's colour coding rating system as set out in creditworthiness policy paragraphs 4.19 – 4.24.

Table 12: Specified Investments

Type of Investment	Minimum 'High' Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	Unlimited
Term deposits – local authorities	*	£8m
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
Money Market Funds (CNAV)	AAA	£6m per MMF & £12m total in MMFs
Money Market Funds (LVNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (VNAV)	AAA	£2m & £12m total in MMFs

Non-Specified Investments

- 4.10 All investments will be sterling denominated.
- 4.11 Investments will not necessarily be made in all categories but they are included to allow the Council to put together a balanced portfolio to mitigate risk.
- 4.12 There are some important considerations that need to be borne in mind when considering non-specified investment types:
- There is a need to commit to investing for the medium to longer term and so funds invested need to be sourced from balances that will not be called upon for cash flow purposes in the short term;
 - Some investments have naturally fluctuating capital values, whilst still providing a revenue income stream;
 - Fluctuation in the value of pooled investments has no impact upon the General Fund in the short term. This is because government has given local government a 5 year mitigation, commencing April 2018 and ending March 2023, under the accounting standard IFRS9 which affects the accounting for pooled investments. Without the mitigation, IFRS9 would have meant charging any fluctuations in capital values of investments against the Council's revenue expenditure each year;
 - The Section 151 officer will subject any investment proposals to extensive due diligence using investment advisers as appropriate.
- 4.13 An investment selection process lead by LAS and involving a cross-party member advisory group to reflect member views in the decision making process was carried out in 2019 to select property fund and multi-asset fund investments. That process resulted in the selection and approval of investments in two property funds (Lothbury £4m and Hermes £2m), and two multi-asset funds (Royal London £3m and CCLA £1m). The multi-asset funds are under the Mixed Investment 0 – 35% Shares non-specified category, although it is accepted by the Section 151 officer that there could theoretically be up to 40% in equities in the CCLA fund due to their volatility constraints.
- 4.14 Investment decisions regarding non-specified investments include full consideration of the Council's declaration of a climate emergency. The recent selection process involved a number of processes not meeting the Council's requirements in this area and future investments placed will also be scrutinised in this fashion.

Table 13: Non-specified Investments - Maturities in excess of 1 year

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Property Funds	***	25 years	£12m
Short Dated Bond Funds	****	3 years	£3m
UK Gilts Funds	****	4 years	£3m
UK Index Linked Gilts Funds	****	4 years	£3m
£ Corporate Bond Funds	****	4 years	£3m
UK Equity & Bond Income Funds	****	10 years	£3m
Mixed Investments 0-35% Shares	****	3 years	£6m
Mixed Investments 20-60% Shares	****	4 years	£4m
Mixed investments 40-85% Shares	****	5 years	£3m
Corporate Bonds	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

**** Due diligence Section 151 Officer

Investment Definitions

Short Dated Bond Funds which focus on shorter-term investments, typically with a maturity limit of 5 years. May invest in all forms of fixed income investments, including government and corporate debt. They are often limited to only using investment grade bonds (BBB-rated and higher), but some funds may make use of sub-investment grade bonds, or unrated issuance.

UK Gilt Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).

UK Index Linked Gilt Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK Index Linked Gilts.

Sterling Corporate Bond Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).

UK Equity & Bond Income Funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.

Mixed Investments 0 – 35% Share Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or “cash” investments. “Cash” can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 20 – 60% Shares Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or “cash” investments. “Cash” can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 40 – 85% Shares Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

Property Funds invest an average of at least 70% of their assets direct in UK property over 5 year rolling periods.

Investment Strategy

- 4.15 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2019 base interest rate was 0.75%.
- 4.16 In 2020-21 the Council will continue to invest in the specified investment category for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In particular instances the Section 151 Officer will authorise investments in the LAS blue category (see para 4.20) for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council’s upper time limits.

Table 14: Investments maturing after the end of the current financial year.

Financial Institution	Amount £	Maturity	Rate
Standard Chartered	2,000,000	05/05/2020	0.920%
Hermes Property Fund	2,000,000	long term	variable

- 4.17 The Council now has approved £10m of investments in the Non-Specified category, and there is scope for the Section 151 officer to increase this by a further £5m subject to proper due diligence.
- 4.18 Bank Rate is currently forecast to continue on a rising trend with further 0.25% increases forecast for March 2021 and June 2022, this would take base rate up to 1.25% in June 2022.

- 4.19 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.
- 4.20 There will be daily monitoring of investments by treasury staff and there will be first quarter, half year, third quarter and year end reports that detail investment activity and performance to Audit and Standards Committee and to Council.

Creditworthiness policy

- 4.21 This Council applies the creditworthiness service provided by LAS. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
- 4.22 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:
- **Yellow** 3 years
 - **Dark pink** 3 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
 - **Light pink** 3 years for Ultra-Short Dated Bond Funds with credit score of 1.5
 - **Purple** 2 years
 - **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
 - **Orange** 1 year
 - **Red** 6 months
 - **Green** 100 days
 - **No colour** not to be used
- 4.23 This creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue impact to just one agency's ratings.
- 4.24 Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 4.25 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the LAS creditworthiness service.

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

4.26 The Council will not place sole reliance on the use of this external service. In addition this Council will use market data and market information, and information on external support for banks to help support its decision making process.

Country limits

4.27 The Council will only invest in the UK and countries with a sovereign rating of AA- or higher. The following countries currently have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in LAS credit worthiness service.

AAA	AA+	AA	AA-
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	USA	France	Qatar
Denmark	Hong Kong		
Germany	UK		
Luxemburg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

5. MISCELLANEOUS TREASURY ISSUES

Use of external service providers

5.1 Link Asset Services (LAS), are the Council's treasury management advisers. However, responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers. The current contract has an end date of 30 September 2020.

Member Training

5.2 The CIPFA Code requires the Section 151 officer to arrange the provision of adequate training for members. Member training will be scheduled for the newly appointed Audit & Standards Committee after the elections in May 2020.

INVESTMENTS AS AT 31 December 2019

Counterparty	£	%	S/ NS	Type	Issue	Maturity
NatWest Treasury Reserve	1,690,091	0.50%	S	Call		
RBS Deposit Account	7,541	0.20%	S	Call		
Natwest RFB	2,000,000	0.85%	S	CD	03/01/2019	03/01/2020
Natwest RFB	2,000,000	0.78%	S	CD	18/09/2019	18/03/2020
NatWest/RBS Group Total	5,697,632					
Goldman	1,649,483	0.67%	S	Call		
Federated Prime Rate	3,992,131	0.73%	S	Call		
Deutsche	113,500	0.66%	S	Call		
Aberdeen	3,992,569	0.68%	S	Call		
Money Market Fund Total	9,747,683					
Santander - 180 day Notice	54	0.95%	S	Notice		
Santander - 95 day Notice	7,917,928	0.85%	S	Notice		
Santander Total	7,917,982					
Svenska call	2,414,077	0.69%	S	Call		
Svenska 35 Day Notice	5,413,000	0.75%	S	Notice		
Svenska Total	7,827,077					
32 day notice	5,910,777	0.90%	S	Notice		
95 day notice	2,036,745	1.10%	S	Notice		
Lloyds Total	7,947,522					
Barclays FIBCA	1,433	0.10%	S	Call		
Current	2,553	0.50%	S	Call		
Barclays 95 Day Notice	7,718,154	0.95%	S	Notice		
Barclays Total	7,722,140					
Standard Chartered	2,000,000	0.92%	S	CD	05/11/2019	05/05/2020
Standard Chartered 95 Day Notice	2,000,000	SONIA + 0.31%	S	Notice		
Standard Chartered Total	4,000,000					
Goldman Sachs 35 Day Notice	2,000,000	0.780%	S			
Goldman Sachs Total	2,000,000					
Coventry Building Society	2,000,000	0.86%	S	Fixed	15/07/2019	15/01/2020
Coventry Building Society	2,000,000					
Hermes	2,000,000		NS			
Property Funds	2,000,000					
TOTAL INVESTMENTS	56,860,036					

S = Specified Investment - 1 year and less
 NS = Non-specified investment - over 1 year
 SONIA = Sterling Over Night Index Average

EXPLANATION OF PRUDENTIAL INDICATORS

Central government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they can demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – table 1 shows last year's capital expenditure, this year's projected capital expenditure and the approved programme until 2022/23.

Ratio of financing costs to net revenue stream – table 5 shows that the General Fund currently receives a small net income from the investment of balances. HRA borrowing means that interest on net borrowing now accounts for between 14.74% and 17.19% of net revenue.

Net borrowing need – table 2 shows borrowing planned to fund the capital programme.

Capital financing requirement (CFR) as at 31 March – table 3 shows the CFR which is the council's underlying need to borrow for capital purposes as determined from the balance sheet. Table 6 shows the overall CFR is £111.468m. As the Council has borrowing of £103.717m the balance sheet shows there is currently under borrowing of £7.751m, which is projected to decrease to £5.624m by 31 March 2020.

Authorised limit for external debt - table 8 shows the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows.

Operational boundary for external debt – table 7 shows the more likely limit to the level of external debt that may be required for day to day cashflow.

Upper limit for total principal sums invested for over 365 days – table 11 shows the amount it is considered can be prudently invested for period in excess of a year.

ECONOMIC BACKGROUND

UK

- **General election** December 2019 returned a large Conservative majority on a platform of getting Brexit done. UK to leave the EU by 31 January 2020.
- There is still considerable uncertainty about whether the UK and EU will be able to agree the details of a **trade deal** by the deadline set by the prime minister of December 2020. This leaves open the potential risks of a no deal or a hard Brexit.
- **GDP growth** has been weak in 2019 and is likely to be around only 1% in 2020.
- **November MPC meeting and Bank of England quarterly Monetary Policy Report** (formerly called the Inflation Report). MPC voted 7-2 to keep rates on hold. Increase in concerns among MPC members around weak UK growth caused by weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery.
- **MPC meeting December 2019** again voted 7-2 to keep rates on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months.
- If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with **Bank Rate** still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** e.g. tax cuts, infrastructure spending etc.
- **CPI inflation** has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to, or under 2% over the next two years and so it does not pose any immediate concern to the MPC. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.
- **Labour market.** Employment growth has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8%. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA

- **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession in 2020 have largely dissipated.
- The strong growth in **employment numbers** during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening.
- **CPI inflation** rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.
- **The Fed** finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.
- At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. In the first month, it will buy \$60bn, whereas it had been reducing its balance sheet by \$50bn per month during 2019.

- The Fed left rates unchanged in **December**. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.
- **Trade war with China**. The trade war is depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, progress has been made in December on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE.

- **Growth** has been slowing from +1.8 % in 2018 to around half of that at the end of 2019; there appears to be little upside potential in the near future.
- **The European Central Bank (ECB)** ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt.
- However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it announced a **third round of TLTROs**; this provides banks with cheap borrowing.
- However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period**.
- At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this very limited loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.
- There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She also announced a thorough review during 2020 of how the ECB conducts monetary policy, including the price stability target.
- Several EU countries have **coalition governments**. More recently, Austria, Spain and Italy have been in the throes of trying to form coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA.

- Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN

- It has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH – reversal of globalisation

- Until recent years, world growth has been boosted by **increasing globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.
- **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates in 2020 and beyond.**
- The trade war between the US and China has been during 2019, and still is, a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, (though such fears have largely dissipated towards the end of 2019).
- These concerns resulted in **government bond yields falling in 2019** in the developed world. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU**. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments**. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

TREASURY MANAGEMENT SCHEME OF DELEGATION AND ROLE OF THE SECTION 151 OFFICER

1. Council

- Approval of annual strategy, mid-year report and outturn report

2. Audit and Standards Committee

- Receipt, review and recommendation to Council of quarterly monitoring reports
- Receipt, review and recommendation to Council of reports on treasury strategy, policy and activity

3. Section 151 Officer

- Reviewing the treasury management policy, procedures, strategy and making recommendations to the Audit and Standards Committee;
- Approving the selection of external service providers and agreeing terms of appointment;
- Submitting regular treasury management strategy reports;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy on internal audit and liaising with external audit;
- Treasury management/capital and revenue financial implications of the Capital Strategy;
- Preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe;
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- Ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

28 JANUARY 2020

11

Report Title	3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2019/20			
Purpose of Report	To provide an update on treasury management activity as at 31/12/2019.			
Decision(s)	The Audit and Standards Committee RESOLVES to accept the third quarter treasury management report for 2019/20.			
Consultation and Feedback	Link Asset Services			
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk			
Options	None			
Background Papers	None			
Appendices	Appendix A – Prudential Indicators 31 December 2019 Appendix B – Explanation of prudential indicators			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	Yes

1. BACKGROUND

- 1.1** Treasury management is defined as: ‘The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’
- 1.2** This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the third quarter of the financial year, and to report on prudential indicators and compliance with treasury limits. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).
- 1.3** The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2009, and it was adopted by this Council on 21 January 2010. This third quarter report has been prepared in compliance with CIPFA’s Code of Practice, and covers the following:
- A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council’s investment portfolio for 2019/20

- A review of the Council's borrowing strategy for 2019/20
- A review of compliance with Treasury and Prudential Limits for 2019/20
- Other Treasury issues

2. MAIN POINTS

Treasury Management Strategy Statement and Investment Strategy update

2.1 The TMSS for 2019/20 was approved by Council on 21 February 2019. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

2.2 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current low interest rate environment the Council is seeking to invest for longer periods of up to a year, with highly credit rated financial institutions, using Link Asset Services' suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay.

2.3 A breakdown of the Council's investment portfolio as at 31 December and 30 September 2019 is shown in Table 2 of this report. Investments and borrowing during the year have not breached the Strategy.

Investment Portfolio 2019/20

2.4 In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the first three quarters is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Net Investment £'000	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/19 - 30/06/19	£98,873	£42,106	0.94%	0.57%	0.68%
01/07/19 - 30/09/19	£102,905	£47,379	0.86%	0.56%	0.64%
01/10/19 - 31/12/19	£115,000	£50,632	0.90%	0.57%	0.66%
Total	£316,778	£46,706	0.90%	0.57%	0.66%

2.5 Table 2 below shows the investments and borrowing position at the end of December 2019.

2.6 The approved limits as set out in the Treasury Management Strategy report to Council 21 February 2019 within the Annual Investment Strategy have been complied with during the first three quarters of 2019/20.

2.7 Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The authority holds £15m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Sep 2019 £'000		Dec 2019 £'000	
Federated Prime Rate	3,278		3,992	
Deutsche	1		114	
Goldman Sachs	0		1,649	
Aberdeen	1		3,993	
Money Market Funds Total		3,280		9,748
Lloyds Banking Group Total	7,944	7,944	7,948	7,948
NatWest	5,011		5,690	
Royal Bank of Scotland	7		8	
RBS Banking Group Total		5,018		5,698
Goldman Sachs	4,000		2,000	
Standard Chartered	2,000		4,000	
Santander	3,013		7,918	
Barclays Bank Plc	7,700		7,722	
Svenska Handelsbanken	5,416		7,827	
Toronto Dominion	2,000		-	
Rabobank Netherlands	2,000		-	
Other Banks Total		26,129		29,467
Coventry Building Society	2000	2000	2,000	2,000
Peterborough City Council	2000	2000	-	-
Hermes	-		2,000	
Property Funds		-		2,000
TOTAL INVESTMENTS		<u>£46,371</u>		<u>£56,861</u>
PWLB		103,717		103,717
TOTAL BORROWING		<u>£103,717</u>		<u>£103,717</u>

Borrowing

- 2.8** The Council's Capital Financing Requirements (CFR) estimate for 2019/20 is £111.468m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has external borrowing of £103.717m as at 31 December 2019.

Compliance with Treasury and Prudential Limits

- 2.9** It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators are outlined in the approved TMSS.

3. CONCLUSION

- 3.1** During the period to 31 December 2019 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

4. IMPLICATIONS

4.1 Financial Implications

There are no significant implications within this category. The report updates on treasury activity throughout the Quarter.

Andrew Cummings, Strategic Director of Resources
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4.2 Legal Implications

There are no significant implications within this category.

Patrick Arran, Interim Head of Legal Services & Monitoring Officer
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4.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

4.4 Environmental Implications

The following sets out details of significant implications identified by officers:

Selection of property funds and multi-asset funds took into consideration some 'red lines' following consultation with a cross-party member group, which included considerations regarding fossil fuels and low carbon energy sources.

Prudential Indicator	2019/20 Indicator £'000	Actual as at 30 Sep 2019 £'000	Actual as at 31 Dec 2019 £'000
Capital Financing Requirement (CFR)	114,657	111,468	111,468
Gross Borrowing	105,717	103,717	103,717
Authorised Limit for external debt	135,000	103,717	103,717
Operational Boundary for external debt	127,000	103,717	103,717
Principal sums invested > 365 days	15,000	0	2,000
Maturity structure of borrowing limits			
Under 12 months	25%	0%	0%
12 months to 2 years	50%	1%	1%
2 years to 5 years	75%	2%	2%
5 years to 10 years	100%	0%	0%
10 years and above	100%	97%	97%

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Gross borrowing – compares estimated gross borrowing in February 2019 strategy with actual gross borrowing as at 31 December 2019.

Capital financing requirement (CFR) – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £111,468m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2019/20.

Authorised limit for external debt - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2019 to 31 December 2019.

Upper limit for total principal sums invested for over 365 days – the amount it is considered can prudently be invested for a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options. Current investments are either fixed rate term investments or on call. Borrowing is at a fixed rate.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

12a

28 JANUARY 2020

WORK PROGRAMME

Proposed Meeting Date	Report Description	Responsible Officer / Member
28 January 2020	Standing Items a. To consider the work programme for 2019/20. b. To consider any Risk Management issues.	Members
	Internal Audit Activity Progress Report 2019/20	Chief Internal Auditor
	External Audit Plan	Deloitte
	Counter Fraud Unit Update	Counter Fraud Unit
	Internal Audit Purpose, Authority, Role and Function	Chief Internal Auditor
	Annual Governance Statement 2018/19 Improvement Plan	Chief Internal Auditor
	Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2020/21	S151 Officer
	3 rd Quarter Treasury Management Activity Report 2019/20	S151 Officer
28 April 2020	Standing Items a. To consider the work programme for 2019/20. b. To consider any Risk Management issues.	Members
	Internal Audit Activity Progress Report 2019/20	Chief Internal Auditor